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PERFORMANCE MANAGEMENT AND ORGANISATIONAL INTELLIGENCE

Learning from a Norwegian Local Government Experience

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Part 1 INTRODUCTION

1 Introduction

The overarching research question asked in this thesis is whether performance management can facilitate organisational intelligence in governmental organisations. The analysis is based on clinical research into a local government experience in which the performance management-system "the Balanced Scorecard" was implemented over a period of five years, 1996-2001. The thesis narrates and compares the parallel change experiences of functional units covering a wide range of local governmental service activities, within the context of Larvik Municipality in Norway.

Inspired by March and Olsen's distinction between two fundamental processes of organisational intelligence, the analytical focus of this thesis is twofold. The first question is to what extent the balanced scorecard-approach can facilitate management control; the second is to what extent it can facilitate organisational learning.

Performance management is among the most controversial issues in the theoretical field of public management today. This academic interest reflects the fact that among the most notable changes that have occurred in the public sectors of a number of western countries over the last 20 years has been a strong and prevailing interest in how to implement performance management systems. These are systems aiming to improve organisational rules and routines involving expenditure planning, financial management, audit, and evaluation in governmental organisations. Performance management is central both to the Financial Management Initiative (1982) and the Next Steps Initiative (1988) in the UK. Likewise to the persistent momentum behind implementation of the Government Results and Performance Act and the Bush Administration's challenges to better integrate the managerial processes of program planning, budgeting, and evaluation in the US (Hyndman and Eden 2000:176, Barzelay and Thompson, forthcoming).

This thesis, however, concentrates on local governmental organisations, where reforms pursuing performance management have been particularly important (Kloot and Martin 2000:231-232). For the Scandinavian countries this is first and foremost evident in the extensive local implementation (Naschold 1996). In 2000, 71,2 percent

of Norwegian municipalities reported that they used performance management in "some or all areas of service activity". 24,7 percent claimed to use it in "all areas" (The Municipality Database, Ministry of Municipalities and Regional Affairs).

The phrase "performance management" no doubt means different things to different people. For the purposes of this thesis, performance management is defined as a system for managing organisational operations, in which "traditional" means of public management, such as vertical centralisation and "before-the-fact" rules and procedures, is replaced with vertical decentralisation and "after-the-fact" control mechanisms (Thompson 1993. See section 2.2 below). Used as a management system within an organisation, performance management takes the form of a management accounting system. For the purposes of this thesis, a management accounting system is defined as a performance management-based system used for "the process of identification, measurement, accumulation, analysis, preparation, interpretation and communication of information that assists executives in fulfilling organizational objectives (…) - a formal mechanism for gathering and communicating data for the ends of aiding and coordinating collective decisions in the light of the overall goals or objectives of an organisation (Horngren, Sundem and Stratton 1996).

The Balanced Scorecard is a high-profiled, "modern" management accounting system, presented as especially suited for public – and other not-for-profit organisations, as well as knowledge-based organisations in the private sectors (Kaplan and Norton 2001).

Like most themes under the umbrella of so-called New Public Management (NPM), performance management and its applicability to governmental organisations is subject to much debate. This Tower of Babel is made up of a range of contributors: stakeholders like politicians, public managers and unions, as well as theorists from various academic fields. Consequently, the controversy over performance management is rather "messy". One can easily get the impression that the field is divided into two camps, one positive and one negative; both making broad claims, based as much on rhetoric as on strong and relevant empirical support (Øgård 2000:34ff).

Central in the large negative camp in the Nordic countries are Røvik (1998) and Rombach (1991). Rombach's key claim is that that the performance management

doctrine is based on assumptions valid only in the private sector, not in the public sector (Øgård 2000:35). I will return to Rombach's claims in chapter six. With his focus on decentralisation, delegation and efficiency in public services, many will perceive of Rune Sørensen (1999, 2001) as one of the few notable social scientists in the positive camp in Norway.

What is clear, is that this polarisation hampers the academic fields of public administration and public management. And moreover, it means that public sector executives do not benefit sufficiently from research that analyse experiences where organisational leaders have concentrated on implementing performance management systems (Barzelay 2001).

This thesis attempts to contribute to moving the field of public management away from such polarisation. This ambition is reflected in the choice of analytical questions, empirical material and theoretical approaches, and it is inspired by Michael Barzelay's book The New Public Management: Improving Research and Policy Dialogue (2001). The starting-point of the analysis is the "middle position" taken by certain researchers working in the field in-between management theory and public administration. These authors claim that "Does performance management suit the public sector?" is the wrong question, as there is no such thing as "the public sector". They argue that differences between public agencies and their different natures of service delivery will profoundly influence if and how performance management works. (Hofstede 1981, Macintosh 1985, Wilson 1989, Carter et.al. 1992, Hyndman and Eden 2000 and Barzelay 2000b).

The overarching research question asked in this thesis is "can performance management facilitate the processes of organisational intelligence in governmental organisations?". Based on the analysis of the Larvik experience, the conclusion is "Yes, but in quite various ways and to varying extents across the different areas of service delivery". The two theoretical approaches applied, contingency theory and theory on organisational learning, make sense of these "variations".

In chapter 2 the key concepts are discussed, theories are outlined and hypothesises are put forward. Chapter 3 explains how the thesis is designed to intelligibly "test" these hypothesises over the following chapters; chapter 4 presents

the empirical material from the Larvik experience and chapter 5 analyses the material in relation to the hypothesises. Chapter 6 addresses some of the practical and theoretical lessons that can be drawn from this experience.

2. Theoretical Framework and Hypothesising

Sections 2.1 and 2.2 in this chapter define and discuss the concepts and issues that are central to this thesis: organisational intelligence, performance management and the balanced scorecard. My aim is to make clear that in attempting to resolve the practical and theoretical controversies over these issues, we need to apply the theories outlined in sections 2.3. and 2.4: contingency theory and theory on learning in organisations. In each of these two sections theory is used to put forward hypothesises about how and why the performance management/organisational intelligence-marriage will function differently in different areas of public sector service delivery. These hypothesises are made subject to empirical scrutiny in chapters 4 and 5.

2.1 Public Management Doctrines and the Two Processes of Organisational Intelligence

In short and general, I understand management in an organisation as an attempt to facilitate and enhance what March and Olsen (1976) call *organisational intelligence*. Like individual intelligence, organisational intelligence is built on two fundamental processes; rational calculation and learning from experience (March and Olsen 1976:54). The first, *rational calculation* is linked to planning for the future, which again is linked to management science. The second process is *learning from experience*. I define organisational learning as what happens when an organisation *makes a relatively permanent change in its behaviour on the basis of experience* (Jacobsen and Thorsvik 1997:298) (see section 2.4 below for a lengthy outline of learning in organisations).

Too often, public management is simply equated with "management control": i.e. it is related to the process of rational calculation only. According to Dunsire (1991), management control is whatever keeps the state of a system within some sub-set of all its possible states. In the abstract, Dunsire argues, management control is a product of the interaction of three components:

- a *director* component (whatever is capable of setting standards over the preferred sub-set of all possible states of the system);
- a *detector* component (whatever is capable of identifying or monitoring the states of a system); and
- an *effector* component (whatever is capable of modifying behaviour or altering the state of a system) (Dunsire 1991).

The result of the interplay of the director, detector and effector components is management control, defined as "the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organisation's objectives" (Hofstede 1981:193). Management control *systems*, then, are the systematised means by which upper management in an organisation measure, monitor and motivate the managers of its various responsibility centres (Macintosh 1985:241)[1].

Especially in German and related languages, the word "control" has what Christopher Hood calls "comptrol"-connotations. Comptrol denotes self-conscious oversight, from a point of authority, by defined individuals endowed with formal rights to enquire, call for changes in behaviour, and (sometimes) punish (Hood 1991, 1998). This simple equation of management with control is a dead-end for the theoretical field of public management The analytical limits of this "command and control"-perception of management in complex organisations has been identified from perspectives as different as institutional economics and biology and cybernetics. Institutional economics focuses on principal-agent- and transaction-cost problems

[1] In a private firm, *responsibility centres* might be accounting divisions, sales divisions and production divisions. In a governmental organisation, like a municipality, the responsibility centres are the functional departments responsible for the various tasks, like medical centres, schools, child care units and infrastructural departments. The "unit of analysis" of a management control system is the entire responsibility centre, as opposed to the various activities or parts within these centres. I.e., the manager in charge of the responsibility centre is the focal point of the management control system.

(Thompson 1993), and biology and cybernetics focus on "autopoiesis" and "the law of requisite variety" (Brans and Rossbach 1997, Dunsire 1991).

The lesson I take from this is not that management control is irrelevant in public management. Rather, my assumption in the following is this: *To fruitfully discuss a management doctrine*[2]*, its ability to facilitate* both *fundamental processes of organisational intelligence must be taken into account. Management control is one, organisational learning the other.*

2.2 The Performance Management Doctrine

The term performance management is used in various ways within the field of public management. This diversity is due to the fact that public management is a field where authoritative contributions from management, accounting, economics, sociology, psychology and public administration meet, compete, and to some extent synerge.

In this thesis I understand performance management as the administrative doctrine that says that in managing organisations, after-the-fact controls (ex post) mechanisms are preferable to before-the-fact (ex ante) mechanisms (Thompson, 1993: 304). This doctrine answers the third of what Thompson calls the four key choices in designing management control systems for organisations: what, where, when and who to control (ibid.).

Thompson himself best explains the conceptual distinction between before- and after-the-fact control mechanisms:

> *Before-the-fact controls are intended to prevent subjects from doing undesirable things or to compel them to do desirable things and necessarily take the form of authoritative mandates, rules, or regulations that specify what*

[2] My use of the term doctrine is the one established by Hood and Jackson (1991): A doctrine is a set of ideas, and it lies half-way between "theory" and "policy". "Theory" means an attempt to make observations consistent, and "policy" an attempt to make actions consistent. "A doctrine then, looks both ways; it makes plain, but in the manner if "revealed truth" rather than the tentative hypothesising of theory. It shows what must be done, but as if it were from necessity rather than the mere instrumentalism of policy" (Hood and Jackson 1991:16). In other words, doctrines offer authoritative answers to "what-to-do" questions in public management, but without being able to prove their claims in a way that would satisfy a natural scientist or a professor of logic. Doctrines have a more argumentative character, in that they win acceptance through social processes, on the basis of "soft data", "soft logic" and rhetoric. Examples of doctrines are "hire public servants on a tenure basis", "Recruit public servants on the basis of merit" and "Use long lines of hierarchy" (Hood and Jackson 1991: 12ff, 33ff). Note that a "doctrine" corresponds fairly well with what Røvik (1998) calls an organisational recipe[organisasjonsoppskrift]:

> *the subject must do, may do or must not do. The subjects of before-the-fact controls are held responsible for complying with these commands and the controller attempts to monitor and enforce compliance with them.*
>
> *After-the-fact controls are executed after the subject acts. (…) Because bad decisions cannot be undone after they are carried out, after-the-fact controls are intended to motivate subjects to make good decisions. Hence, subjects are made responsible for the consequences of their decisions, and the controller attempts to monitor those consequences and to see that subjects are rewarded or sanctioned accordingly.* (Thompson 1993:304)

It is worth noting that this definition of performance management takes a quite different approach than those found in so-called New Public Management (NPM)-literature. There, performance management is often defined with an implicit or explicit reference to a distinction between forms of "organisational effectiveness" (Scott 1992). In the terms applied throughout this thesis (cf. p.12f), my interpretation is that many NPM-writers see performance management as a tool for enhancement of "outcome" organisational effectiveness only; not "structural" or "procedural" effectiveness (Hood 1995:95). As will be made clear, this thesis claims that such a definition is analytically unhelpful, since both a priori reasoning and the lessons from the present experience argue that performance management may very well be used for enhancement of all three forms of organisational effectiveness.

Authoritative contributions to the management literature agree that the following six chained points make up the central principles of performance management (informed by Horngren, Sundem and Stratton 1996):

a legitimised recipe for how to configure parts or elements of an organisation. It is a recipe that has achieved a "model"-

Table 1: The principles of performance management

1. Define a limited number of strategic goals for the organisation's activity.
2. Find the critical success factors, hierarchically sub-ordered the strategic goals. Critical success factors are things that must be in place or accomplished before the organisation can reach its goals.
3. Delegate to the functional sub-units of the organisation to focus on the critical success factors within their respective areas.
4. For each functional sub-unit, make a budget. I.e. specify what is considered satisfactory performance on the critical success factors.
5. Demand from the sub-units reports on performance relative to budget.
6. On the basis of the reports, decide whether corrective action is needed towards the sub-units or the organisation as a whole.

Like all administrative doctrines, performance management has a history in public management. In his analysis of public sector developments in the OECD countries, Frieder Naschold (1996) depicts the history of performance management by starting off from Management by Objectives (MbO) in the 1970s. He then describes MbO's transformation into Management by Results (MbR) in the late 1980s and early 1990s, and ends the story in the late 1990s, with something I interpret to resemble the Balanced Scorecard (cf. below): decentralised contextual steering.

Though we see these variations over performance management presented as distinct management concepts in the literature, and not least by management consultants, the differences between MbO, MbR and BSC are far from clear-cut. As often as not, the differences might be as much matters of implementation than of conceptual differences. This "confusion" is evident in one of the Norwegian Municipality Association's "How to"- guides, where the balanced scorecard is equated with "balanced MbO" (KS 2000:48). Nonetheless, some differences deserve to be mentioned. In short, what unites all three embodiments of performance management is the management cycle described as points 1-6 in Table 1. What differentiates them is which parts of the doctrine they emphasise (Naschold 1996:65). MbO stresses the

status for many organisations" (Røvik 1998:13).

setting of objectives (points 1-2) while MbR stresses the feeding back of results (points 4-5). What basically distinguishes the BSC from its two predecessors is its spin on goal-setting (point 2 in particular) and the weight placed on delegation and participation (related to points 3 and 6) (cf. p.18ff).

Since the 1980s, efforts to introduce the principles of performance management, in one form or the other, have been made in many OECD countries, and especially throughout Scandinavia (Naschold 1996:65). Røvik (1998) describes how this happened in various governmental agencies and state-owned enterprises in the case of Norway. And moreover, as mentioned in the introduction, 71,2 percent of Norwegian municipalities reported to using performance management in some or all areas of activity in 2000. 24,7 percent claimed to use it in all areas. However, only 5,4 percent of the municipalities reported that they used performance indicators in all areas of activity. 37,4 percent used it in some areas (The Municipality Database, Ministry of Municipalities and Regional affairs). This supports the assumption that in practice there is confusion as to what one calls performance management. As will be made clear later, it makes little sense to use performance management without performance indicators.

The management logic of performance management, as defined in Table 1, is used both inter-organisationally and intra-organisationally (terms from Christensen and Lægreid 1999). Inter-organisationally means that manager and managed are legally distinct bodies. Examples of inter-organisational performance management relations are (i) a municipality in relation to a private firm that performs municipal renovation services on contract, and (ii) the Ministry of Industry (Næringsdepartementet) in relation to Norwegian Rail (NSB) and state-owned (or –controlled) enterprises like Statoil and Telenor. However, as indicated in the introduction, the preoccupation of this thesis is intra-organisational management; the use of performance management within an organisation, in the form of a management accounting system. Hence, until the concluding chapter, where I relate my findings to inter-organisational relationships as well, the reader should keep in mind that when the term performance management is used, we are always talking about management accounting systems.

2.2.1 The role of Performance indicators

Any discussion of the performance management doctrine needs to feature the role played by performance measurement and performance indicators (PIs). The mother of all PIs was the Financial management initiative (FMI), Margaret Thatcher's 1983 UK white paper. FMI emphasised that managers at all levels in government should have a "clear view of their objectives, and assess, and wherever possible measure, outputs or performance in relation to these objectives". This principle made it essential to develop "performance indicators and output measures which can be used to assess success in achieving objectives" (Prime Minister and Chancellor of the Exchequer 1983, Carter et.al. 1991:86).

In the 1980s, many observers predicted PIs to be just another passing fashion, soon to be replaced by the next buzzword of management consultantcy. History has proven them wrong. By 1988, over 2000 PIs were in use across the UK core civil service (Carter et.al. 1991:86). Since then, any self-respecting OECD governmental reform initiative has highlighted the use of PIs. Related to the discussion in the previous section, PIs has been central to all embodiments of the performance management doctrine; MbO, MbR and the Balanced Scorecard. And PIs are used not only intra-organisationally; to an ever increasing extent PIs are used in the re-regulation of former monopolies and network utilities like telecommunications and railways.

But what exactly are PIs? The answer depends on whom you ask, as e.g. what PIs measure and how are they used varies immensely from initiative to initiative, and from sector to sector. Hence, the purpose of this section is to give an account of this variety; an account that will prove itself useful for the empirical analysis over the chapters to follow. To provide a classification of kinds of PIs, I am interested in three features; how the PIs are measured, what they measure and how they are used.

How are the PIs measured? Instrumental and Social tests

Macintosh (1994:128-131) makes a distinction between several "scorekeeping situations". The distinction most relevant for my purposes is the one between instrumental and social tests. An instrumental test is an authoritative objective

assessment of the effectiveness of the organisation's performance. Did the instrumental action taken achieve the desired state? Social tests, on the other hand, judge the performance of an organisation by the collective subjective opinions and beliefs of one or more stakeholders, like clients\customers, employees or overseers. An example from the Larvik experience of an instrumentally tested PI is "All employees shall complete a conflict-handling course", [a "structural dial" according to the typology below] from the 2001 department plan of the Technical department. An example of a socially tested PI is "90 percent of all pupils shall feel comfortable at school", ", [a "structural tin opener" according to the typology below] from the 2001 department plan of Byskogen school.

What is measured? Outcome indicators and Procedural and Structural Output indicators

Informed by Scott's discussion of how to measure organisational effectiveness, and Wilson's distinction between outputs and outcomes (cf. page 25f), I make a distinction between measures of "outcome efficiency" ("outcome PIs", hereafter), measures of "procedural output efficiency" ("procedural PIs") and measures of "structural output efficiency" ("structural PIs").

Outcome PIs focus on specific characteristics of materials or objects on which the organisation in question has performed some operation. Examples of outcome indicators are: for educational organisations – (changes in) the knowledge or attitudes of students; for medical institutions - (changes in) the health status of patients; and for water provision agencies - (changes in) the quality of drinking water (Scott 1992:353-358, Wilson 1989:159).

Procedural PIs, on the other hand, represent an assessment of input or energy - regardless of outcome. Some procedural indicators assess work quantity, like how many patients were seen in the emergency room of a hospital. Others assess work quality, like the number of complaints received. What they have in common is that they say something about efforts, - nothing about achievements or effects (Scott 1992).

Structural PIs assess the capacity of the organisation to produce the desired outcome. Included here are all measures of organisational features presumed to have an impact on organisational effectiveness. Manufacturing organisations can be

assessed by the value and age of their machinery; and almost any organisation, be it a school, a hospital or a management consultantcy firm, by the education, experience, age and good health of their employees. "If process measures are once removed from outcomes, then structure indicators are twice remote, for these indicators index not the work performed by structures, but their capacity to perform work" (Scott 1992:357).

How are the PIs used? Dials and Tin-openers

Carter and Carter et. al. (1991:94-95, 1992:49-51) make a distinction between prescriptive and descriptive indicators. A prescriptive PI operates like a dial, from which "performance" can be read off. Such a "dial" provides a precise measure of e.g. outcome-, procedural - or structural effectiveness, based on a pre-set norm or standard of what makes for good or bad performance. Examples of prescriptive PIs – "dials" – could be a measure of the amount of bacteria in water [outcome], or a pupil-per-computer-ratio in a school [structural]. If there are too many pupils per computer, the school is under-performing, and something must me done. Likewise if there is too much bacteria in the water. Then the quality is simply not good enough. A dial is an unambiguous and un-challengable measure; it provides a means of "stopping up excuses" on the part of subordinates (Carter 1991: 93).

A descriptive PI is more ambiguous, it works more like a "tin-opener opening up a can of worms" than as a dial (Carter 1991). By itself, a tin-opener provides only an incomplete and inaccurate picture. Such indicators do not give answers but prompt further interrogation and inquiry, or at least discussion. An example of a tin-opener PI could be a survey of client-satisfaction with the level of service they meet in a given public office. A reduction in the share of those "very satisfied" from 70% to 50% from one year to the next does not give any clear answers. It is simply an invitation for the responsible authorities to investigate this office, to probe and to ask questions.

We see how this relates to Johansson's discussion of the distinction between data and information (see p. 36 below). A datum represents something given, noted by someone. A datum is meaningful to the person who makes the note, but not necessarily to others. Others need to interpret the datum before it becomes meaningful; i.e. before it becomes a piece of information. In Johansson's term, information is knowledge for the purpose of taking effective action (Johansson 1995:19). A *dial*, then, is a piece of

data that requires little interpretation to become information for either the department manager or upper management in the organisation. A *tin-opener* is data that needs much interpretation to become "information", in Johansson's term.

A Typology of Performance Indicators

In sum, the questions of "what is measured" and "how used" form a 3*2 typology of PIs, as represented by Figure 1. For illustrative purposes, PIs in use in Larvik municipality during the 1996-2001-experience are fitted into each of the categories. For the sake of simplicity, the distinction between instrumental and social tests is omitted from the typology. The empirical analysis in chapter four will show, however, that social tests are usually used as tin-opener measures of either outcome or structural effectiveness.

Figure 1: A typology of performance indicators, with examples

		What do the PIs measure?		
		Outcome	Procedural output	Structural output
Use of indicators	Dials	Ex: "85% of all drinking water shall be of satisfactory quality" (from the 2001 department plan of the Technical department)	Ex: "Comply with environmental standards in 60% of all projects" (from the 2001 department plan of the Technical department)	Ex: "Institutionalise meetings between the department and the municipality's Social benefits department" (from the 2001 department plan of the Work and Employment department)
	Tin-openers	Ex: "A doubling of the number of sports organisations in the municipality that have included disabled in their activities" (from the 2001 department plan of the Culture and sports department)	Not used in Larvik. Hypothetical example: "Receive no complaints from consumers"	Ex: "Percentage sick-leave" (from the 2001 department plan of the Work and employment department)

2.2.2 How Performance management facilitates Organisational intelligence

As underlined above, my assumption is that in order to fruitfully discuss a management doctrine, its ability to facilitate both fundamental processes of organisational intelligence must be taken into account. Management control is one, organisational learning the other. The question addressed in this section is how the management accounting-embodiment of the performance management doctrine claims to facilitate these two processes.

Management accounting and Management control

First, in order to facilitate **management control,** management accounting systems prescribe deregulation of service provision activities and delegation of operational powers to functional sub-units in the organisation. Recall from p. 7 that management control *systems* are the systematised means by which upper management in an organisation measure, monitor and motivate the managers of its various responsibility centres (Macintosh 1985:241).

The "deal" is that in exchange for a dedication to certain agreed objectives, the sub-units get freedom from top-down command&control. The idea is that if you "let the managers manage" they will do so effectively and efficiently. Øgård (2000:33,39) describes this phenomenon as "faith in management".

The *director* component of management control corresponds with the third and fourth steps in the performance management doctrine (see Table 1, p.10): "Delegate to the functional sub-units of the organisation to focus on the critical success factors within their respective areas" and "For each functional sub-unit, make a budget. I.e. specify what is considered satisfactory performance on the critical success factors". Related to management accounting in a divisionalised organisation, this means that each department is to develop annual department plans, with PIs setting standards for the department's performance that year. The respective roles and influence of upper management, department management or department staff in this process will vary. As will the level of detail in the department plans.

The *detector* component of management control corresponds to step five in Table 1: "Demand from the sub-units reports on performance relative to budget". Such performance reports are to reveal to upper management possible deviations from the plan or budget. Reports may have different levels of detail and the frequency of reporting may wary from annual to daily.

The *effector* component corresponds to step six in Table 1: "On the basis of the reports, decide whether corrective action is needed towards the sub-units or the organisation as a whole". The form of corrective action may vary from giving department managers advice on how to better achieve their targets to promoting or firing department managers or staff.

Note that there are two kinds of objectives, organisation-wide ones and objectives that are unique for the sub-unit in question. For the organisation-wide ones, a hierarchy of objectives can be established. In such a hierarchy a sub-unit' objectives – in a modified, internalised form – reflect the goals set at the top of the organisation. To Kaplan and Norton, enhancing such "strategy-focusedness" is the overarching rationale for implementing BSCs in the public sector. The BSC-slogan is in fact "Translating strategy into action". As Kaplan and Norton observe:

> *In our experience*, [not-for-profit] *and government agencies typically have considerable difficulty in defining clearly their strategy. We have seen "strategy" documents running upwards of fifty pages. These organisations must understand (...) that strategy is not only what the organisation intends to do, but also what it decides not to do.* (Kaplan and Norton 2001:133).

Management accounting and Organisational learning

In order to enhance **organisational learning,** management accounting systems spark off a learning process that is to run continuously in the organisation (March and Olsen 1976, Argyris and Shön 1975, Luckett and Eggleton 1991, Weick 2001). The relationship between the process of learning and the performance management doctrine is that this process takes place in each sub-unit, corresponding to points 4-6 in Table 1. Again and again, units at all levels of the organisation are to find out how they can achieve their objectives, both unit-specific and organisation-wide. The basis of learning is the cyclic process represented in Table 2.

Table 2: The process of organisational learning, as prescribed by management accounting systems

1. Specify performance indicators, related to your objectives.
2. Plan how to perform well on these PIs.
3. Find out how you are doing on your PIs by getting and processing feedback from your environment (denoted *scanning* in section 2.4 below).
4. Start from the top again (denoted *response* in section 2.4), based on an interpretation of the feedback, conducted by upper management and the unit manager in concert (denoted *interpretation* in section 2.4).

With each "circle" – which corresponds to the frequency of performance reporting, discussed above- the department presumably gets better at all the four steps in the process: The department in question (1) sets better PIs; (2) gets better at planning how to perform well on the PIs; and (3) improves at getting and processing feedback (scanning); and (4) enhances its interpretation skills.

Frieder Naschold (1996) has highlighted the importance of studying the process of learning in evaluations of performance management. In his treatment of OECD public sector reforms in the 1990s, one of Naschold's observations is that while we are all aware of the necessity of management control;

> *Successful reform projects point to a function of the new steering model which normally remains in the background: the (...) importance of the interactive and decentralised negotiating process, [with] ... continuous and targeted discussion and negotiation on targets, results and their conditions (...). In such a case, the new steering system is to be considered less as a [management control system] than as a suitable basis for collective and binding learning, experience and conciliation processes* (Naschold 1996:9).

The Balanced Scorecard

Before moving on it is useful to make a distinction between "classic" and "modern" management accounting systems. A "classic" management accounting system is a tool for management of financial aspects only. In its "modern" form, the management

logic is the same (cf. Table 1), but aspects beyond the financial are incorporated into the system. The Balanced Scorecard (BSC) is the most high-profiled and discussed version of a "modern" management accounting system. The BSC was developed by Kaplan and Norton through a series of articles in Harvard Business Review in the early 1990s, and through two books, The Balanced Scorecard (1996) and The Strategy-Focused Organisation (2001).

Kaplan and Norton built the BSC in response to a growing perception among practitioners and academics alike. The perception was that the focus on short-term economic measures made "traditional" management accounting systems no longer helpful in managing companies in the private sector and of very little relevance to public and not-for-profit organisations. Dr. Kaplan was himself one of the most outspoken critics of the traditional way, most notably in his book *Relevance Lost, The Rise and Fall of Management Accounting* (Johnson and Kaplan, 1991). The idea behind the BSC was to mend the deficiencies of the traditional management accounting systems, but without scrapping the management logic depicted in Table 1):

> *The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation*
> (Kaplan and Norton 1996)

Hence, a BSC is a management accounting system that combines traditional, short-termed financial measures with short-, medium- and long-term operational, non-financial measures. In its original form, as it was developed by Kaplan and Norton (Kaplan and Norton 1992:71ff), the balanced scorecard urges managers to identify and measure critical performance variables from four perspectives; a financial perspective; a customer perspective; an innovation and learning perspective; and from an internal business perspective.

According to Kaplan and Norton the BSC is "used extensively in both the private, public and not-for-profit sector across the world" (2001: vii). It is difficult, though, to assess how widely the BSC is actually implemented. No hard data are available to witness this, neither for the case of Scandinavia nor for other OECD countries. But there is evidently a strong interest in BSC, among practitioners and academics alike. The academic attention is reflected in the fact that Kaplan and Norton's *The Balanced Scorecard* (1996) has been translated into nineteen languages (Kaplan and Norton 2001: vii) and that a vast number of academic articles has been published on the subject.

Worth noting, however, are the several indications of a steeply rising interest in BSC among local and central governmental agencies across Scandinavia. In all three countries –Norway, Sweden and Denmark- books have been published, telling success-stories about respective national implementations in both the private, public and not-for-profit sector (Hoff and Holving 2001; Olve, Roy and Wetter 1997; Bukh, Fredrksen and Hegaard 2000, respectively). A further indication is the fact that all three national municipality associations have produced respective handbooks on "how to implement a Balanced Scorecard" (Kommunenes Sentralforbund 2000:47ff, Bukh, Fredriksen and Hegaard 2000:260). According to the Norwegian Municipality Association 20% of Norwegian municipalities have implemented a BSC – "… in part or totally" (KS 2000:48). I believe this number to be widely exaggerated, however, and it might be a result of the above-mentioned semantic confusion of BSC, MbO and MbR. What is for sure, is that the Norwegian Ministry of Local Government and Regional Development has set up a pilot project to help municipalities implement BSCs, and per December 2001, a number Norwegian municipalities have implemented or are starting the implementation[3].

2.2.3 Two poles and a middle position in the controversy over performance management

Common to all embodiments of the performance management doctrine is that their applicability to governmental organisations is subject to much debate. Unfortunately,

as mentioned in the introduction, both critics and supporters often make very broad claims, too often based more on rhetoric than strong and relevant empirical support. A brief introduction to this controversy is a prerequisite for understanding the relevance of the two bodies of theory outlined over sections 2.3 and 2.4.

Central among the **unconditioned optimists** are Osborne and Gaebler. Their book *Reinventing Government* (1992) is a best-selling American tract for "New Public Management", and a key source of inspiration for the 1993 *US National Performance Review* (Barzelay and Thompson, forthcoming). In the introductory chapter, called "An American Perestroika", the authors describe the "bankruptcy" of the public management policy they call "the bureaucratic model". The bureaucratic model is described as a "command and control"-model, based on hierarchical authority, functional specialisation and a focus on recruitment, merit, professionalism and rules and procedures (Osborne and Gaebler 1992: 12-16). They use what Hood (1994) calls a "habitat change" argumentation, by claiming that the bureaucratic model has "worked superbly", but today it is outdated. The model was developed in conditions very different from those we experience now. Today, "most government institutions perform increasingly complex tasks, in competitive, rapidly changing environments, with customers who want quality and choice" (ibid.:12,16).

Based on "a journey through the [US] landscape of governmental change .. over the past five years", the authors conclude that governments who have realised which public management policies are suited for the modern era "measure the performance of their agencies, focusing not on inputs but on outcomes. They are driven by their goals –their missions- not by their rules and regulations… They decentralize authority, embracing participatory management" (ibid.:19-20).

No less dogmatic are the **unconditioned pessimists**. Many political scientists criticise performance management and doubt its applicability to public organisations on the basis of its implicit or explicit reliance on agency theory. These criticisms are often very theoretical in form and escape the scope of this thesis. What unites most unconditioned pessimists is an almost platonic idea of "publicness", reflected in a

[3] Tønsberg, Larvik, Drammen, Sør-Trøndelag fylkeskommune, Stavanger, Sandnes, Bærum

strong scepticism of performance management's sensitivity to the realities and values distinctive to the public sector.

The pessimists argue that performance management's reliance on the techniques of accounting leads to a strong emphasis on quantification, measurement, operational efficiency and numerical accountability. They claim that the performance management doctrine in effect is relevant only to organisations whose main purpose is to produce profit; a clear, unambiguous, observable and measurable outcome; known as the currency of all things in the world of business. As a result, they make the broad-brush conclusion that performance management is applicable to the for-profit-sector only, not to organisations in the not-for-profit sector.

What the pessimists fear, if performance management is applied to governmental organisations, is a management policy geared more to short-term production of outputs than planning for the long haul, and systems more attuned to accounting for what has been produced than to evaluate progress in achieving major policy objectives (Schick 1996:53, Lapsey 2000:170-171, Eriksen 2001, McSweeney 1994, Rombach 1991 and 1992, and Naschold 1996)

A middle position in the controversy is taken by those who argue that there is no such thing as "the public sector". In their analysis of British experiences with performance management Carter, Klein and Day (1992) conclude that "The commonly held belief that performance assessment differs between public and private organisations because the latter possess the bottom line, profit, does not stand up to examination" (ibid.:51).

Addressing the "unconditioned pessimists", they argue that the issues of management system design and system use is best framed in terms of organisational characteristics that transcend the conventional for-profit/not-for-profit divide (ibid.) "One conclusion, above all, stands out from both the history of managerial reforms (…) and the review of the main concepts and issues in the performance literature. This is that the notion of performance (…) is, in theory and practice, both contestable and complex. It seems apparent that differences between organisations and the nature of service delivery will profoundly influence the design and use of performance indicators (ibid.: 50-51).

Authors such as Hofstede (1981), Hyndman and Eden (2000) and Barzelay (2000b) reinforce this argument. In short, what unites these middle-positionists, is that they argue that differences between public sector-agencies and their different natures of service delivery will profoundly influence if and how performance management works.

Building on the middle position

In an attempt to make sense of these "differences" within the public sector – hypothesised to influence if and how performance management works – two bodies of theory will be introduced over the next two sections. These are contingency theory in section 2.3, and theory on learning in organisations in 2.4.

Why use these two approaches? Recall that on pages 7-8 I argued that to intelligibly discuss any management doctrine, it's attempts to facilitate *both* fundamental processes of organisational intelligence must be taken into account; management control and organisational learning. This is the justification for moving the thesis on as follows: In section 2.3, the contingency approach is put to work to make sense of how management control varies across organisations; and in section 2.4, theory on learning in organisations is used to understand how organisational learning varies. Each of the sections conclude with respective hypothesises about what patterns of practice we might expect to find in various types of organisations. These hypothesises will in turn be measured up to the experiences of the departments in Larvik municipality, narrated in chapter 4.

2.3 Contingency Theory

First in this section the background and general content of the contingency theory is introduced. Then I show how this approach relates to the balanced scorecard, and how it can be used to make hypothesises about how management control will vary across organisations.

Over the years, public management theory has produced a range of theories on how organisations become successful and why certain organisations become more

successful than others. After the breakthrough of industrialism, the dominant schools of thought were scientific management (taylorism), the administrative school (Fayol), the bureaucratic school (weberianism) and human relations. Their substantial differences aside, what unites these schools of thoughts was their universalistic nature. Only to a very limited degree did their propositions for how to structure and manage organisations take into account the fact that organisations function under different internal and external circumstances (Johansson 1995:27).

Burns and Stalker (1961) were among the first to break off from the universalistic strain by arguing that organisational success is contingent on situational factors in the internal and external environment, so-called contingency factors. Their focus was on whether environments and technologies (the nature of the work done) of organisations were stable or unstable. As a result they differentiated "mechanical" from "organic" organisations, and argued that central issues like structure, decision-making, streams of information and criteria for effectiveness should be framed differently in the two organisational types respectively (Burns and Stalker 1961).

Since then, contributions focusing on different contingency factors have made an impact in the field of public management theory. Factors that are often discussed are age, size and culture of the organisation. Note that authors using the contingency approach do not take the extreme position opposite to universalism, which would be a pure situation-specific position. Contingency theorists take a middle position, by indeed making generalisations about what is the "most effective" management style or organisational structure, but for classes of organisational operating conditions only.

Over the next few pages, an approach based on the contingency factor *organisational technology* is used to make prediction about how management control practice will vary across different public sector organisations.

2.3.1 Contingency Theory and Management Control

The contingency approach applied in the following is based on the political scientist James Q. Wilson's typology of organisational operating conditions, or organisational technologies (Wilson 1989). Subsequent to outlining his line of argument, I use

Wilson's typology to make predictions about what kinds of management control practices we might expect to find in different types of organisations.

Organisational technology pertains to the nature of work activities. It is "the actions an individual performs on an object, with or without the aid of tool or mechanical devices, in order to make some change in that object" (Perrow 1970:198). This definition stresses the organisation's conversion process, which changes inputs to outcomes. Inputs may be any sort of raw material – people, ideas, orders, paperwork, steel castings- upon which organisational skill and knowledge is brought to bear (Macintosh 1994:112).

Wilson's point of departure for constructing his typology is the following statement:

> *From a managerial point of view, agencies differ in two main respects: Can the activities of their operators be observed? Can the results of those activities be observed? The first factor involves outputs –what the teachers, doctors, engineers, police officers and grant-givers do on a day-to-day basis. (…) The second factor involves outcomes –how, if at all, the world changes because of the outputs. The outputs (or work) of police officers are the radio calls answered, beats walked, tickets written, accidents investigated, and arrests made. The outcomes (or results) are the changes, if any, in the level of safety, security, order, and amenity in the community* (Wilson 1989:158-9)

Outputs of an agency may be hard to observe - for one or both of two reasons: Either what the operator does is esoteric (like an AD in an advertising firm, sitting in his chair and somehow coming up with a brilliant idea of how to sell a product) or because the operator acts out of view of the manager (like a forest ranger, looking after his forest, thousands of kilometres from his superiors) (ibid.:159). Related to the cases we will get to know in the analysis in chapters 4-5, the output of a teacher at Byskogen School is unobservable for both reasons. His or her output is esoteric because no manager can predict exactly how a teacher can succeed in explaining algebra to a specific pupil; and a teacher behind the closed classroom door is well out of view of superiors.

Similarly, the outcomes of an agency may be hard to observe - for one or both of the following two reasons: Either because the outcome appears after a long delay (for example, the meaningful time to measure whether a drug rehabilitation programme makes an addict drug-free is not the month after rehab), or - because the outcome results from an unknown combination of operator behaviour and other factors (for example, a pupil's exam results reflect some mixture of pupil intelligence, parental influence and teacher skill) (ibid.).

Observing outputs and outcomes is not either possible or impossible; in real-life it is rather either easy or difficult. Nonetheless, for analytical purposes it is useful to put the two dimensions together to produce a typology of four ideal cases of organisational technologies, as illustrated in Figure 2.

		OUTCOMES	
		Observable	Not observable
OUTPUTS	Observable	**PRODUCTION TECHNOLOGY**	**PROCEDURAL TECHNOLOGY**
	Not observable	**CRAFT TECHNOLOGY**	**COPING TECHNOLOGY**

Figure 2: A typology of organisational technologies

Over a number of articles and books, Norman B. Macintosh has extended a contingency approach very similar to Wilson's to statements about *what sort of management control practices are suitable to the different types of organisational technology*. These recommendations are based in part on theoretical deduction and in part on induction from empirical research into the management control practices of ninety responsibility centres in twenty large private and public organisations (Macintosh 1985:247). Accordingly, over the following paragraphs I put forward hypothesises about the relationship between organisational technology and management control practice.

In other words, the question addressed by the hypothesises 1A-1C is this: "What management control practices do we expect to observe developing over time in the relation between upper management and departments characterised by different forms of organisational technologies?" The implications of the different types of practices hypothesised will be outlined in terms of their respective operationalisations on the three components of management control: We recall from page 7 that management control is often understood as a product of the interaction of three components: a director component (whatever is capable of setting standards over the preferred sub-set of all possible states of the system); a detector component (whatever is capable of identifying or monitoring the states of a system); and an effector component (whatever is capable of modifying behaviour or altering the state of a system).

Chapter 4 narrates and compares the parallel change experiences of four very different functional departments within the context of Larvik municipality; departments that cover almost the whole range of organisational technologies, as framed by Wilson. Over a period of six years, these departments all implemented a balanced scorecard, through a process characterised by what I have denoted improvisation (cf. p. 54). This empirical material arguably provides a prime site for testing Macintosh's conclusions, as the underlying idea of his take is evolutionary: In general, Macintosh argues, organisations seek organisational structures that are congruent with their technologies. It follows that they would also seek a congruence between these factors and their management control systems. (Macintosh 1985:246-255, 1994:112-113).

Hypothesis 1: The BSC-reform has facilitated management control in Larvik.
The nil-hypothesis is that management control was not facilitated.

Hypothesis 1 is my point of departure for constructing the more specific hypothesises about the BSC-reform and management control in Larvik: Hypothesises 1A-1C (below). Informed by Macintosh's framework, my assumption is that what Hypothesis 1 entails in terms of actual management control practices in the relationship between

the departments and upper management is contingent upon the four departments' respective organisational technologies:

Hypothesis 1A: Production technology and close management control

An agency whose outputs and outcomes are both observable, has a *production* technology. Such agencies are – (due to NPM) to an ever increasing extent - further between in the public sector than in the private. Some can be found, though. Wilson uses the Internal Revenue Service (IRS) as an example. Outputs are the activities of clerks and auditors; outcomes are the amount of money collected in taxes as a result of their efforts; both easily observed. Agencies providing infrastructural services, like road-building and water provision, are other examples.

Hence, of the cases discussed in chapter 4, **the Technical department** is the one which closest resembles this ideal type. The Technical department is responsible for maintenance of public roads and parking spaces, including traffic safety and traffic lights; building, running and maintaining the public water transportation and sewage systems; renovation and recycling of domestic waste; running and maintaining public parks and toilets, sports facilities and playgrounds; and developing public residential- and industrial areas.

Other departments in Larvik that can be argued to have a production-type organisational technology are the Electricity department and the Service Centre. The latter is responsible for processing letters and calls, arranging appointments, providing the public with various forms, etc. These cases are however not discussed in this thesis.

Related to **management control practice**, my Macintosh-informed hypothesis is that in the Technical department, an organisation characterised by production technology, we will observe a "close" control practice developing over time. According to Macintosh (1985), the implications of this "close" practice are as follows. On the director component, upper municipal management will have a great influence in setting PIs, and PIs are many and detailed, focusing on outputs as well as outcomes. As for detector, performance reports are detailed and frequent. The need for steady, reliable and orderly outputs accounts in part for the high influence of upper

management in target setting, as well as for the frequent and detailed reporting (Macintosh 1985:248-9).

What use can upper management in the municipality have of such a system? This management control practice resembles what Simon el. al. (1954) denote a "scorecarding" system; a system for close measuring and monitoring of output as well as outcome.

Hypothesis 1B: Coping technology and prospects-oriented management control

The opposite case is an agency whose outputs and outcomes are both *un*observable; agencies characterised by *coping* technology. Of the cases discussed in chapter 4, **Byskogen School** is the department which closest resembles this ideal type. Why the outputs of such an organisation are unobservable was outlined above (cf. p.25). The outcomes of a school are also unobservable. First, because the outcome results from an unknown combination of the teacher's or the school's behaviour and other factors (for example, a pupil's exam results reflect some mixture of pupil intelligence, parental influence and teacher skill). Alternatively, if one takes the view that the outcome of schooling is something like "wise, tolerant and well-adjusted citizens" rather than numeric exam results, the outcome obviously appears after a long delay.

Related to **management control practice**, my Macintosh-informed hypothesis is that in Byskogen school, an organisation characterised by coping technology, we will observe a "prospects-oriented" control practice developing over time. According to Macintosh (1985:253), the implications of this practice are as follows: On the director component, employees and department managers are influential in setting targets, since they are more knowledgeable about the requirements of work, which is typically esoteric. Targets will not be detailed, but often "stretchers"; targets set at high levels, and i.e. hard to achieve. On the detector component, we will find infrequent and general reporting, since greater detail would be of little help to upper management.

Consequently, this is not a system upper management in the municipality can use for "scorecarding". Rather, it makes for a "softer" use, along the lines of evaluation, planning and estimation of future prospects, as well as co-ordination of the

department's efforts with those of other departments (Simon et. al. 1954, Johansson 1995:38).

Procedural technology and procedural management control

In agencies characterised by procedural technology, outputs are observable but outcomes are not. According to Wilson, the most archtypical example is the armed forces during peacetime. Every detail of output - training, equipment and deployment- performed in the army's departments is under the direct inspection of upper management. But none of these factors can be tested in the only way that counts, against a real enemy, except in wartime (Wilson 1989:163).

Though examples of such agencies can indeed be found in municipalities, none are analysed empirically in this thesis. Hence, no hypothesis will be put forward here about management control practice in "procedural" organisations. Suffice to note, then, that the hypothesis would have been that we would have observed a "procedural" control practice developing over time.

This is not a control practice suitable for performance management. Breaking the practice down to entailments on director, detector and effector is hence meaningless. "Procedural" control is typically hierarchical lines of authority, formal rules and standard operating procedures; something that resembles the classic bureaucratic public management; in fact the opposite of the performance management doctrine, as defined in this thesis.

Hypothesis 1C: Craft technology and results-oriented management control

In the case of *craft* agencies, outcomes are observable but outputs are not. Arch-typical examples are advertising agencies, artists and football teams. The outcomes of such organisations are unambiguous and readily observable from an upper manager's point of view: gross billings to clients, nice paintings, and good football, respectively[4]. Outputs, on the other hand, are largely esoteric, and hence unobservable. I.e., what

[4] To be fair, the distinction between output and outcome will often be less straightforward than outlined here. An example from the world of football may illustrate this. In 2001, Hector Cuper was surprisingly fired as manager of the Spanish team Valencia. Mr. Cuper had lead his team to the top of the Spanish league and to the top of European football. His problem was hence not a lack of victories; it was *the way* he won. The fans thought Mr. Cuper's team played boring football.

upper management can decide in advance, is the desired level of outcome; not how to get there (the output). Returning to football, Manchester United's executive director will never be able to instruct the team manager, Sir Alex Ferguson, about his out*put,* which is how to give the players the morale, spirit and confidence they need to perform to the best of their abilities. But he is nonetheless in his full right to fire him on the basis of poor out*come*; i.e. if the team does not do well.

Among the cases discussed in chapter 4, the Culture and sports department and the Work and employment department closest resemble this ideal type, though the latter is perhaps the best fit. The *outcome* of the **Work and employment department** is to "provide work or other occupation to people whose work-capacity or competence is unresolved and to people who for some other reason have not made a choice of occupation ". Typical clients are immigrants without the necessary language skills, physically challenged and mentally ill people (Department plan 2001:2, interview with Mr. Auby, the department manager). In short, the out*come* of the department's activities is to get people off benefits and into paid occupation. Whether or not this happens is arguably fairly easy to observe.

The out*put* of the Work and employment department is however not easily observed. Much of the work done consists of face-to-face interaction between professional councillors and clients, aiming to increase their self esteem and bring them out of passivity . "We must often try to find out how to give them the push that can bring them out of passivity; a setting they may have found to be comfortable", Mr. Auby says (interview). Exactly how a front-line councillor manages to empower and motivate a specific client is hard to say – and i.e. hard to observe.

The *outcome* of the work of the **Culture and sports department** is cultural activities like music, dance, theatre, literature, arts and sports and other outdoor activities. The department targets both the public at large and prioritised groups like children, elderly, immigrants, physically disabled and mentally challenged. The department is responsible for arranging and facilitating. To some extent the department is directly responsible as arranger of activities, but largely the department has a more intermediate role. The department advises, guides and economically supports the

Consequently, the board of directors fired him. The point is that Mr. Cuper and the fans disagreed over what was the

relevant cultural- and sports-organisations from the voluntary sector in the municipality. In addition the department invites external actors like the national theatre ("Riksteateret") to perform in Larvik. The point is that whether or not popular cultural and sports activities take place in Larvik is fairly easily observed.

The *output* of the Culture and sports department is harder to observe, especially in the areas where the departments have a more intermediate role. In these areas, the work performed is "unobservable"; it is activities like network-building within and outside the municipality, and inspiring and empowering local organisations.

Related to **management control practice**, my Macintosh-informed hypothesis is that in the cases of the Work and Employment department and the Culture and Sports department, we will observe a "results-oriented" management control practice developing over time. According to Macintosh (1985), the implications of this practice are as follows. On the director component, targets are simple, involving instrumental tests which focus on outcomes, as close monitoring of output will not ensure efficiency or effectiveness[5]. Department managers have great influence in setting targets. Target levels are relatively easy to achieve. As for detector, control reports are frequent, and general in content, rather than detailed (Macintosh 1985:252-253).

What use can upper management in the municipality have of such a system? Obviously, this is not a system for "scorecarding". Macintosh argues that this is a system useful in clarifying target levels and thereby helping people to do things correctly (Macintosh 1985:253). This resembles what Simon et. al. (1954) call "attention-directing". If the data reveals that e.g. the Culture and Sports department does not achieve the desired level of outcome, they know they need to make efforts to find out what they can do differently next time around. The system i.e. helps the department direct their attention towards certain aspects of their activities (Johansson 1995:38).

Hypothesis 2: The BSC-reform has facilitated strategic management in Larvik

Recall from page 17 that in a decentralised organisation there are two kinds of objectives, organisation-wide ones and objectives unique for the sub-unit in question.

outcome. To Mr. Cuper, only victories was outcome; to the fans, style was as well.

For the organisation-wide ones, a hierarchy of objectives can be established. In such a hierarchy the objectives a sub-unit reflect – in a modified, internalised form – the goals set at the top of the organisation. When such a hierarchy is in place, strategy has been "translated into action" (Kaplan and Norton 2001). Related to Table 1, "The principles of performance management", on page 10, this specific form of management control pertains to point three; "Delegate to the functional sub-units of the organisation to focus on the critical success factors within their respective areas".

My hypothesis is that the BSC-reform has in fact facilitated strategic management in Larvik. Over the period studied, 1996-2001, I expect to find a hierarchy of objectives emerging in relation to all the four departments studied; the Technical department, the Work and employment department, the Culture and sports department and Byskogen school.

2.4 Learning in Organisations

First in this section theory on learning in organisations is introduced in general terms. Then I use this approach to make hypothesises about how the ways in which the BSC-approach facilitates learning will vary across organisations.

I define organisational learning as what happens when an organisation *makes a relatively permanent change in its behaviour on the basis of experience* (Robbins 1993:110, Jacobsen and Thorsvik 1997:298). This definition may seem straightforward enough, but it is based on four terms and assumptions that need some elaboration (Jacobsen and Thorsvik 1997:298):

1. A change in behaviour is something you can observe. If an organisation "knows" what to do (e.g. we have to respond to calls earlier to make our clients happy), but has yet to do so, it has not "learned", according to this definition.
2. The change in behaviour must be relatively permanent. An organisation has not learned if a change in behaviour is due to passing coincidences.

[5] For example, measuring outputs like the time spent by his office desk or the frequency of meetings attendance is no good indicator of whether an advertising agency AD does a good job or not. What counts is clients' sales.

3. Learning is based on experience; either the organisation's direct experiences, or indirect experiences, obtained from reading or hearing about others' experiences.
4. Finally, learning contains elements of both knowledge and an action. Learning happens when an organisation experiences something (clients are unhappy), tries to analyse why this is so (too slow responses to calls), tries to find out what to do to achieve a better result (respond more quickly) and finally changes behaviour (starts responding more quickly to calls).

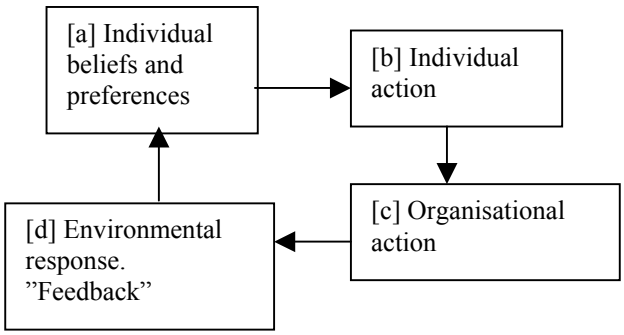

Figure 3: The complete cycle of organisational learning

Figure 3 is March and Olsen's illustration of "the complete cycle" of organisational learning. They use the cycle not to illustrate that organisational learning is easy, however. March and Olsen argue that learning is difficult, as in many cases one or more of the arrows are interrupted (March and Olsen 1976:54ff). The arrow central to this thesis in the one connecting boxes [d] and [a]. March and Olsen argue that in situations of ambiguity, we can not trust the assumption that e.g. negative feedback from the environment leads to changes in the beliefs and preferences of the individuals working in the organisation in question. In ambiguous situations the feedback is unclear. In the simple situation, the individual keen to learn sees that he affects organisational action, which in turn affects the environment. Under ambiguity, by contrast, subsequent events are seen only dimly, and causal connections among events have to be inferred. I.e. it is not clear what happened or why it happened (March and Olsen 1976:58).

This relates to point 4 above, in my definition of organisational learning. The road from experience (feedback) to changed behaviour is a long and winding one, as it must go via trying to analyse the feedback, finding out how it relates to prior conduct, and finding out what to do to get a better result (better feedback). Karl E. Weick (2001) highlights the importance of interpretation in his framing of organisations as learning systems (see below).

> *Organisations must make interpretations. Managers literally must wade into the ocean of events that surround the organisation and actively try to make sense of them. Organisation participants physically act on these events, attending to some of them, ignoring most of them, and talking to other people to see what they are doing. Interpretation is the process of translating these events, of developing models for understanding, of bringing out meaning, and of assembling conceptual schemes.* (Weick 2001:244)

As illustrated by Figure 4, Weick organises the process of organisational learning into three stages. Related to March and Olsen's cycle, Weick's *scanning* represents the organisation's efforts to build the arrow between boxes [c] and [d]; *interpretation* represents the arrow between boxes [d] and [a], and *response* the arrows connecting [a]-[b] and [b]-[c].

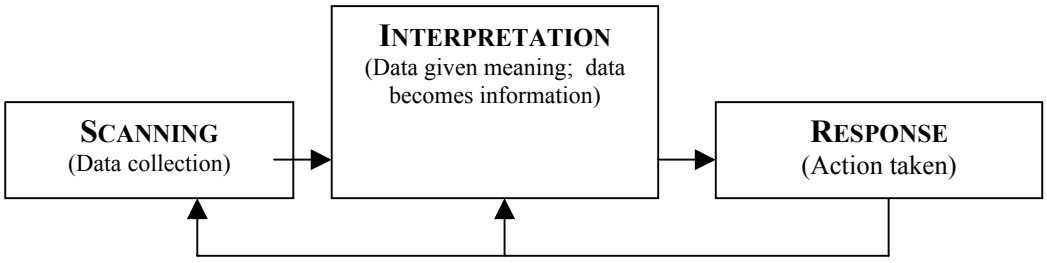

Figure 4: Relationships among the components of organisational learning: Scanning, interpretation, and learning
(From Weick 2001:244)

Scanning is the process of monitoring the environment and providing environmental data [feedback] to (the managers of) organisations. I will get back to the different means and strategies available for scanning later.

Interpretation is about giving meaning to the data. Formally, Weick defines interpretation as the process of translating events and developing shared understanding and conceptual schemes among members of the organisation, or its leaders. The importance of interpretation to management accounting is highlighted by several authors. Luckett and Eggleton (1991) argue that while rightly acknowledging the importance of feedback [*scanning*], management accounting theory pays too little attention to the behavioural consequences of feedback. In other words, these authors complain that only *scanning*, the first of the three components of the learning process, is taken into account. Luckett and Eggleton argue that much due to an exaggerated dedication to the cybernetic mode of thinking about control,

> *[t]he operation of the feedback loop is usually viewed in a neutral or mechanistic way in the management accounting literature. (...) There has been little critical appreciation or systematic analysis of the ways in which [feedback] may affect the behaviour of organisational participants*. (Luckett and Eggleton 1991:372-3).

The importance of understanding interpretation is further underlined by Johansson (1995) who analytically separates data and information. A datum represents something given, noted by someone. A datum is meaningful to the person who makes the note, but not necessarily to others. Others need to interpret the datum before it becomes meaningful; i.e. before it becomes a piece of information. In Johansson's term, information is knowledge for the purpose of taking effective action (Johansson 1995:19).

The difference between data and information can be illustrated by a couple of hypothetical examples. First, envision a manager of a water provision agency. He will probably have little difficulty of interpreting –and i.e. acting on- the following data: the content of sewage bacteria in the drinking water was above the critical limit last week. Far less straightforward is the interpretation task in example two: A user-survey tells the manager of a child care agency that 80% of its clients are unhappy with the quality of services. The point is this: To become information for individuals in an

organisation, data need interpretation – which, however, can be straightforward or very difficult.

For too long, Johansson argues, management accountants overlooked the difference between data and information. Over time, Mintzberg (1975), Macintosh (1985) and other organisation theorists have managed to make an impact in the field of management accounting. Now there is a growing perception that as only information can affect the behaviour of the individual in the organisation, it is vital –not least for management system designers- to understand how data in accounting reports is transformed into information for the individual (Johansson 1995:203).

Response, the third stage of learning, is distinguished from interpretation by the concept of action. Response involves a (new) response or action based on interpretation (Argyris and Schön 1978, Weick 2001:244).

We now turn to the task of understanding how the ways in which the BSC can facilitate organisational learning will vary across organisations.

2.4.1 Understanding How Learning Varies Across Organisations

To make sense of how the learning-process of scanning, interpretation and response happens and varies across organisations, we need some analytical tool. The one used in the following is provided by Weick, who puts together two theoretical dimensions to construct four *learning modes,* according to which real-life organisations can be categorised. Actual learning, framed as scanning-, interpretation- and response behaviour, is hypothesised to vary systematically according to which learning mode the organisation in question is in. The first dimension Wieck uses is denoted *the extent to which the organisation intrudes into the environment to understand it*; the second *the organisation's assumptions about the analysability of its environment*. (Weick 2001:245ff)[6].

[6] Note that what counts as an organisation's "environment" is far from obvious. A full discussion of this question far escapes the scope of this thesis. Hence, in the following, for shorthand, I denote the following as an organisation's "environment": Stakeholders like clients/customers, employees and (political or administrative) overseers, and peers. What strengths and powers these groups possess in relation to the organisation in question, clearly varies immensely between areas of service activity in the public sector.

In short, my hypothesis is that the BSC-approach will force or help all types of organisations from a passive to an active intrusiveness mode. But what this transition entails in terms of changes in actual scanning-, interpretation- and response behaviour differs depending on whether the organisations in question assume that their environments are analysable or unanalysable.

Following the next three sections, in which the learning modes-framework is outlined, this hypothesis is elaborated as hypothesises 3A and 3B.

Organisational Intrusiveness

Intrusiveness is about scanning and interpretation behaviour. Organisations in an *active intrusiveness mode* actively search their environment for "answers". They strategically focus on it, and allocate considerable financial and human resources to continuous and systematic scanning activities. These active, or intrusive, organisations e.g. conduct surveys of satisfaction among their stakeholders, like clients and employees. Moreover, active organisations generally think creatively about how they can get feedback from different parts of their environment, and engage actively in how to interpret whatever feedback they get. Organisational intrusiveness -

> - *may also include testing or manipulating the environment. These organisations may leap before they look, perform trials in order to learn what an error is, and discover what is feasible by testing presumed constraints. Forceful organisations may break presumed rules, or try to manipulate critical factors in the environment. (...) These organisations may be called test makers* (Weick 2001:246).

Passive organisations, on the other hand, are informal and unsystematic in their scanning and interpretation activities. They interpret the environment within accepted limits. They accept whatever information the environment gives them, and thereby become what Weick calls test avoiders (ibid.:246-7).

In order to explain why some organisations are in a passive, and others in an active intrusiveness mode, two explanatory components can be used; one "static", the other "dynamic". The *static* component is variation in dependency upon the environment (ibid.:247). A heavily dependent organisation needs to intrude actively into its environment. An example of a "dependent" organisation is one exposed to

competition. Imagine a public agency providing food to the elderly homes in a municipality on a contract-basis. It may be exposed to competition for next year's contract from public agencies in neighbouring municipalities or from private companies. As it is dependent on customer satisfaction for continued contract, we would expect such an agency to be in a more active intrusiveness mode than a comparable agency that is not exposed to competition.

The *dynamic* component in explaining why some organisations are "active" and others "passive", is to what extent the managers are willing and able to keep the organisation in an active mode. Intrusiveness into the environment requires persistent interest and dedication to prioritise these activities, even in times of constrained resources. To achieve this a manager needs to build and nurture a culture of "dependency" among key employees.

Assumptions About the Environment

Organisations who perceive their environments as analysable believe that "there is an answer is out there" to the question "how shall we best go about doing our job?". As a result, for such organisations, successful performance is simply a matter of scanning the environment for the relevant feedback, and subject it to the "correct" interpretation. The key to successful performance is hence "discovery through intelligence gathering, rational analysis, vigilance and accurate measurement" (Weick 2001:246).

When an organisation assumes that the external environment is *un*analysable, an entirely different strategy will apply. The organisation to some extent may create the external environment. The key is to construct, coerce, or enact a reasonable interpretation that makes previous action sensible and suggests some next steps (ibid.)

Weick explains differences in organisational beliefs about the environment with a combination of objective characteristics of the environment and managers' previous interpretation experience; i.e. one static and one dynamic element. "When the environment is subjective, difficult to penetrate, or changing, managers will see it as less analysable" (ibid.).

This point is a central one in organisation theory, and has been expressed in various ways. One explanation for why some organisations see their environments as "unanalysable" is that they receive contradicting feedback from it.

Another explanation – put forward by sociologists inspired by Niklas Luhman - focuses on internal communication. *Autopoietic*, or *closed* systems is their denotation of organisations similar to those Weick describes as having "unanalysable environments". Their argument is that organisations occupied by professionals -like doctors and other health personnel, lawyers or economists- develop "self-referentially" through "dense internal communication".

> *In the interest of "survival"* [the organisation] *continuously produces its internal structure without reference to any outside source.* [The organisation] *tries to maintain its essential identity and boundaries through perturbation, and it responds to the environment only to the extent that it is internally represented in such systems* (Brans og Rossbach 1997: 432, Dunsire 1996: 302f).

It follows that for such organisations, it is difficult for stakeholders in the environment to make their voice heard. And visa versa; a "self-referring" organisation will have difficulty of seeing the relevance of feedback from either clients or overseers. According to autopoiesis-theory, as illustrated by the quotation above, the environmental feedback most likely to be deemed relevant is the signals coming from peers, like colleagues. In fact, this central to the notion of professionalism is the assertion that what defines a professional is precisely the fact that he or she is only accountable to his or her peers (Carter, Klein and Day 1992:35). As a result, feedback coming from other sources – be it clients or non-professional managers - will easily be regarded as data of little concern rather than information.

These are of course ideal categories. The "dynamic" explanatory component aside, real-life organisations will come somewhere on a continuum between having "analysable" or "unanalysable" environments. Nonetheless, it seems clear from the autopoiesis-line of argument that many of the key services performed by municipalities approach the "unanalysable"-end of the continuum. Organisations performing primary education, healthcare, child care and social services all fit the description outlined above fairly well, in that they are dominated by respective homogenous groups of notoriously self-conscious professionals. Of the departments whose change experiences are analysed in this thesis, Byskogen school, with its homogenous group of teachers, is clearly the best case of an organisation with an

"unanalysable" environment. Alongside doctors, teachers is the profession most "feared" by management theorists and practitioners alike.

On the other end of the continuum come organisations performing various infrastructural services, like provision and maintenance of water, electricity, gas and roads. Such organisations seldom get contradicting feedback from the environment, and they are not dominated by strong groups of professionals. Hence, of the departments studied in this thesis, the Technical department is hypothesised to be an organisation with an "analysable" environment.

The two remaining Larvik-departments are more difficult to place on the continuum. *The Culture and sports department* is not dominated by professionals. Still no good "answer" is apparently assumed to "be out there". Mrs. Wold, the manager of the department, expresses that the department receives contradicting feedback from its environment. If attendance was the only measure of success, her job would have been easy, Mrs. Wold argues. She would then dedicate her efforts to "noting but football and brass bands" (interview). But her job is to satisfy even the minority of stakeholders interested in the finer arts, she argues. "Our job is to see to it that everyone gets what they want, which means Pippi Langstrømpe and brass bands one week and classical piano and ballet the other" (interview). The point is that at any given moment, one group of stakeholders will be unhappy, no matter what the department does. As a result, I assume that the Culture and sports department perceives its environment as "unanalysable".

The Work and Employment department is impossible to place anywhere but in the middle of the continuum. This is a huge and complex department, made up of twelve very different sub-units, each of which dominated by respective professionals, like social workers, pedagogists and carpenters. Some of these sub-units probably perceive their environments as analysable, others not. The unit

The Four Interpretation Modes

Taken together, these two dimensions produce a two-times-two typology of ideal-type *learning modes*. Weick's key argument is that the process of scanning, interpretation and response follows four characteristic behavioural patterns, corresponding to these four modes, *enacting, discovering, conditioned viewing* and *undirected viewing*. Note

that the last component, response, will not be focused in the following, as tracing actual courses of action escapes the empirical scrutinise of the chapters that follow.

The Enacting Mode

An organisation that assumes that the environment is unanalysable, but chooses an active intrusiveness strategy, is in an **enacting** learning mode. These organisations are highly activated. They "gather information by trying new behaviours and seeing what happens. They experiment, test and stimulate, and they ignore precedent, rules and traditional expectations" (Weick 2001:248).

In terms of *scanning behaviour*, typical characteristics of organisations in an enacting mode is to make use of a wide variety of sources. Related to the discussion of performance indicators (PIs) in section 2.2.1 above, an enacting organisation typically makes use of data from the whole range of possible means; both instrumental tests and social tests like user surveys are utilised, as are the whole range of kinds of PIs from Figure 1. But since the environment is perceived as unanalysable, "tin openers" will be more frequent measures "outcome organisational efficiency" than "dials" (cf. p.14f).

Note that all PIs are "impersonal" data sources, in that they their measurement do not involve direct contact between organisational managers and other individuals. However, an organisation in an enacting mode also makes use of "personal" data sources. In direct contact with stakeholders like overseers, colleagues, peers or customers, the organisation's manager performs "social tests", as often as not by experimenting and imposing new ideas on stakeholders (Weick 2001:250-251). This way the manager of an enacting organisation as much "shapes" as "receives" feedback from the environment.

Recall that interpretation is the process by which feedback from the environment is translated into "information" (see discussion of this distinction on p.36). In the enacting mode, *interpretation* processes are seldom standardised, and often a wide range of organisational participants are included in the interpretation process. The reason for this is that feedback will often be subject to multiple interpretations, due to the perception of the environment as unanalysable. As a result, organisational managers will typically include e.g. overseers and colleagues in

extensive deliberations over feedback, hoping to arrive at a sensible interpretation in concert (Weick 2001:251-252).

The Discovering Mode

An organisation that assumes that the environment is analysable, and chooses an active intrusiveness strategy is in a **discovering** learning mode. This mode also represents an intrusive organisation, but here "the emphasis is on detecting the correct answer already in an analysable environment rather than on shaping the answer" (Weick 2001:248).

As in the enacting mode, typical *scanning* behaviour in the discovering mode is to make use of the whole range of possible PIs. Unlike in the enacting mode, even outcome "dials" are frequently used in this mode, as the environment is perceived as analysable.

Social tests are less frequently used than instrumental ones in constructing PIs. Typically, "carefully devised measurement probes are sent into the environment to relay information back to the organisation" (ibid.). Surveys to stakeholders is one example. Such and other "impersonal" data i.e. determine organisational interpretations about environmental characteristics and expectations (ibid.). "Personal" data sources are seldom used in this mode.

As multiple interpretations are far between in discovering organisations, *interpretation* processes are to a large extent standardised, and typically the prerogative of the managers of the organisation.

The Conditioned Viewing Mode

Among those assuming that the environment is analysable, organisations with a passive intrusiveness strategy are in a **conditioned viewing** learning mode. They "tend to rely on established data collection procedures, and the interpretations are developed within traditional boundaries (Weick 2001:249). As the environment is perceived as objective and benevolent, the organisation does not take unusual steps to learn about stakeholders and their perceptions about the organisation's performance.

Typically, *scanning* is conditioned in the sense it is limited to the "impersonal" data obtained routinely from reports on a few instrumental PIs. Similarly, *interpretation* is conditioned in the sense that it, like in the discovering mode, is fairly standardised and constrained to the managers of the organisation.

The Undirected Viewing Mode

An organisation that assumes that the environment is unanalysable, and chooses a passive intrusiveness strategy, is in an **undirected viewing** learning mode. As the managers of such organisations assume the environment to be unanalysable, they do not scan for hard, objective data. Rather, they act on limited, soft information to create their perceived environments (Weick 2001:249).

Typical *scanning* behaviour in this mode is to make little use of formal, "impersonal" management data, like data from PIs. Any PIs in use are likely to be tin openers. Any formal performance reports will tend to be ad hoc and irregular. Rather than form such reports, however, management data will typically be obtained from personal contact with peers and colleagues (Weick 2001:251). Similarly to the enacting mode, interpretation is unstandardised. Managers of the organisation do not include stakeholders in the interpretation process, they typically struggle by themselves in trying to make sense of the often contradicting data.

		ORGANISATIONAL INTRUSIVENESS	
		passive	active
ASSUMPTIONS ABOUT THE ENVIRONMENT	un-analysable	**UNDIRECTED VIEWING** **Scanning characteristics:** few formal sources – mostly personal, irregular. Outcome PIs are tin openers. Irregular scanning activities. **Interpretation process:** unstandardised, exclusive	**ENACTING** **Scanning characteristics:** data from many sources. Most outcome PIs are tin openers. Regular scanning activities. **Interpretation process:** unstandardised, extensive, inclusive, "shaping the answer"
	analysable	**CONDITIONED VIEWING** **Scanning characteristics:** few sources, little and unsystematical formal data. Irregular scanning activities. **Interpretation process:** unstandardised, exclusive	**DISCOVERING** **Scanning characteristics:** data from many sources. Most outcome PIs are "dials". Regular scanning activities. **Interpretation process:** standardised, systematic, exclusive, "detecting the answer"

Figure 5: A typology of organisational learning modes

Hypothesis 3 – the BSC- reform and Organisational Learning

The organisational learning modes-framework is not as deterministic as the contingency theory-approach. True, we have seen how "static" components to some extent explain why one organisation is in learning mode X, and another in mode Y. But compared with the contingency approach, the "dynamic" components are more important, especially in explaining an organisation's place on the dimension *active or passive intrusiveness mode*. Hence, the learning modes-theory does not facilitate clear-cut a priori hypothesises. Its potential analytical usefulness is to provide a framework for seeing patterns in the change experiences narrated in chapter four. Nonetheless, the following hypothesis is put forward, whose ambition is no more or less than to provide the starting point for reflection:

Over the period 1996-2000, the BSC reform will partly help, partly force all four departments studied into a more active intrusiveness mode. What this entails in terms of actual learning behaviour is contingent upon their assumptions about their

environments. Byskogen school and the Culture and Sports department, the departments assumed to perceive *un*analysable environments, will move from a starting-point in an "undirected viewing" to an "enacting" learning mode. The technical department, assumed to perceive an analysable environment, will move from a "conditioned viewing" to a "discovering" learning mode.

2.5 Hypothesises Summarised

Table 3 below summarises the hypothesises put forward in the present chapter.

Table 3: Hypothesises summarised

Source	Hypothesises
Management control (Wilson's Contingency theory)	**1.** Over the period 1996-2001, the BSC-reform will facilitate management control in relation to all four departments studied. What this entails in terms of actual management control practices is contingent upon the departments' organisational technologies: • **1A**: In the Technical department, an organisation characterised by production technology, we will observe a "close" control practice developing over time (cf. p.28) • **1B**: In Byskogen school, an organisation characterised by coping technology, we will observe a "prospects-oriented" control practice developing over time (cf. p.29) • **1C**: In the Work and Employment department and the Culture and Sports department, organisations characterised by craft technology, we will observe a "results-oriented" control practice developing over time (cf. p.30f)
Strategic management (Management control)	**2**: Over the period studied, 1996-2001, I expect to find a hierarchy of objectives emerging in relation to all four departments studied (cf. p.32f)
Organisational learning (Weick's Learning modes-theory)	**3:** Over the period 1996-2001, the BSC reform will partly help, partly force all four departments studied into a more active intrusiveness mode. What this entails in terms of actual learning behaviour is contingent upon the departments' assumptions about their environments (cf. p.45f)

3. RESEARCH DESIGN

The empirical material presented in this thesis is clinical research into a local government experience in which a Balanced Scorecard was implemented over a period of five years, 1996-2001. The thesis compares the parallel change experiences of four functional departments within the context of one large governmental organisation, Larvik Municipality in Norway. Section 3.1 outlines how this material is put to work to "test" the hypothesises put forward in the previous chapter. Section 3.2 gives some background information on the "administrative situation" (Simon 1946) of Larvik and the four departments studied: The Technical department, the Culture and sports department, Byskogen school and the Work and Employment department. Section 3.3 provides a methodological discussion of the research design.

3.1 How the Hypothesises are Put to the Test

The preceding chapter served to present two bulks of hypothesises. Hypothesises 1, 1A-1C and 2 - all related to the BSC-reform's effect on management control - were presented on pages 27-33. Hypothesis 3 - about the reform's effect on organisational learning in the organisation – was presented on pages 45-46. The present chapter explains how each of these hypothesises, five in all, will be made subject to empirical scrutiny; in other words how the hypothesises are "tested".

3.1.1 Testing hypothesis 1, about the BSC-reform and management control

Recall that hypothesis 1 is that over the period 1996-2001, the BSC-reform will facilitate management control in relation to all four departments studied. Hypothesises 1A-1C pertain to the more specific entailments of management control practices across the departments. The nil-hypothesis is that the management control practice did not vary substantially across the departments.

In relation to hypothesises 1 and 1A-1C, my narration of the change experiences will be guided by Dunsire's three components of management control: The *director* component is rules and routines related to the identification of

performance indicators for the department (cf. p.7). Here, document studies of the annual department plans will be central. Important questions will be how many and what kind of performance indicators (PIs) did the departments use. A second interesting aspect is how these PIs were set. Who participated, and in what way? To find out about this latter aspect I will use material from interviews with department managers and my informants in upper management.

The *detector* component is rules and routines related to how the departments report their performance on these indicators (cf. p.7). The *effector* component is rules and routines related to how the apex of the municipality acts on the information in the performance reports in order to correct the departments' behaviour (cf. p.7). To narrate the departments' experiences on these two components, I will study the annual, tertiary and monthly control reports and make use of the above-mentioned interview material.

3.1.2 Testing hypothesis 2, about the BSC-reform and strategic management

Recall from page 32f that hypothesis 2 is that the BSC-reform has facilitated strategic management in Larvik. I.e., over the period studied, 1996-2001, we expect to find a hierarchy of objectives emerging in relation to all the four departments studied. The nil-hypothesis is that a hierarchy of objectives did not emerge.

To assess whether strategy is "translated into action", I will compare the annual department plans of the departments with the annual action plans of the municipality in search of a *hierarchy of objectives*. Are the official municipality-wide objectives reflected in the PIs in the departments' action plans? Moreover, are *changes* in municipal objectives over time reflected in changes in the department plans?

In the third period of the change experience, 2000-2001, the departments were required to state in their department plans how they intended to excel on each and every one of the PIs. I will assess whether this was done – to the extent PIs for municipality-wide objectives were developed at all.

In addition, I will make use of material from interviews with the department managers to find out to what extent they feel obliged to dedicate their efforts to achieve well on these municipal-wide objectives.

3.1.3 Testing hypothesises 3 about the BSC-reform and organisational learning

Recall from page 45 that hypothesis 3 is that over the period 1996-2000, the BSC reform will have partly helped, partly forced all four departments studied into a more active intrusiveness mode. What this entails in terms of actual learning behaviour is contingent upon their assumptions about their environments. Byskogen school and the Culture and Sports department, the departments assumed to perceive *un*analysable environments, will move from a starting-point in an "undirected viewing" learning to an "enacting" mode. The technical department, assumed to perceive an analysable environment, will move from a "conditioned viewing" to a "discovering" learning mode. The nil-hypothesis is that the reform did not bring the departments into a more active intrusiveness mode.

In "testing" hypothesis 3, the first two of the three components of learning – *scanning and interpretation behaviour* will frame my narration of the departments' change experiences (cf. p.36, 42ff). The third component, *response* behaviour, - a (new) response or action based on interpretation- escapes the scope of this thesis.

Performance on the PIs in their respective action plans, either measured by themselves or by stakeholders in their environment, will be the most important feedback the departments receive from the environment. Hence, the best indicator of *scanning behaviour* of departments is what PIs they make use of. My treatment of scanning behaviour will i.e. somewhat overlap the director component in my treatment of hypothesises 1A-1C. Central questions are: How many PIs are used in the respective action plans; what sort of PIs are used (cf. section 2.2.1 on p.12ff); and who were involved in setting them. Material from both document studies and interviews will be used to assess these questions.

Several questions are important in depicting *interpretation behaviour*: Who were involved in the process of interpreting feedback? Only the department managers?; stakeholders like overseers, clients or colleagues in the department?, or even peers outside the department? Moreover, in which fora did interpretation take place? The prime source of material for assessment of these questions will be interviews with the four department managers, the CEO and the Financial Officer in Larvik municipality.

3.2 Background information

3.2.1 The Change Experience of Larvik Municipality

To understand the "administrative situation" (Simon 1946) that makes up the context for the events studied, some background on Larvik municipality is required. A Norwegian local council, a municipality, is lead by a council of locally elected politicians. The administration is headed by a chief executive officer (CEO), and divided into functional departments providing the inhabitants with various services. A municipality provides all governmental services in the local community (except policing).

Larvik Municipality was formed in 1988 out of the city-municipality Larvik and the four surrounding municipalities Hedrum, Tjølling, Stavern and Brunlanes. Larvik is a large municipality by Norwegian standards, with 530 square kilometres and 40.088 inhabitants. The administration has 2.700 employees. According to the classification of the Norwegian Department of Municipalities and Regions, Larvik is a large, low-income municipality.

Traditionally, the Labour party has governed Larvik. But since 1995 the parties in the centre or in the right end of the political spectre have been in majority in the council. In the period 1995-1999 the conservatives (Høyre) and the agrarian centre party (Senterpartiet) held joint power. Today (1999-2003) the conservatives share power with the progressive party (Fremskrittspartiet). Mrs. Holtskog was appointed CEO of Larvik in 1995. The current CEO, Mr. Einar Gaustad, took over the position early in 1999.

The change experience studied started in 1996. At that time, in part as a response demands for economic cut-backs, the newly elected centre-conservative political coalition and the new CEO of Larvik municipality agreed to implement a new model of management in the administration, along the lines of what this thesis has defined as a Balanced Scorecard. All administrative units were required to contribute.

As a result, quite drastic structural changes were made over the period 1996 to 2001. The handful of functional sectors, like health, work, school, culture and technical were dissolved into 65 result units. Each elderly home, each cultural

institution and each school, like Byskogen, became "result units" – or *departments* –, and were delegated powers that gave them much discretion from hierarchical interference. Along with the sector-level went the sector heads. They were replaced with three functional "municipality directors", directly under the CEO. The heads of each department were given the status of department managers. I.e., all the four departments studied here were established as result units in 1996.

By 2001, the middle-level (the municipality directors) had been removed, leaving an extremely flat organisation cart, as illustrated in Figure 6 below.

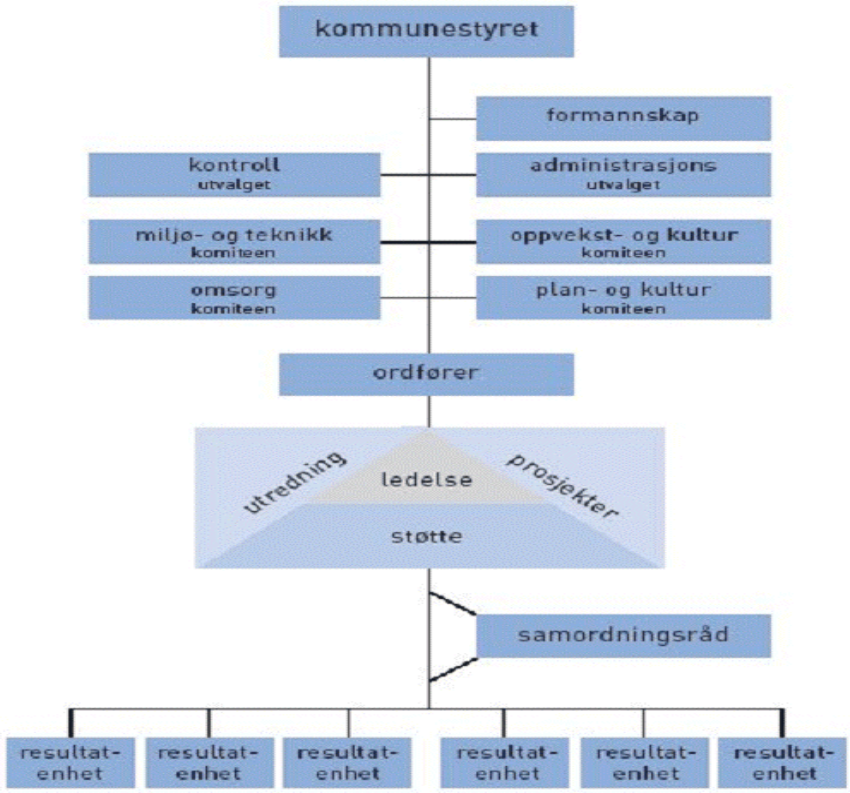

Figure 6: Organisation chart of Larvik Municipality 2001

3.2.2 Background on the Departments

The Technical department was established as a result unit in 1996. Before then it was a part of the larger technical sector, together with the fire department, the planning department and the electricity department. The Technical department is responsible for maintenance of public roads and parking spaces, including traffic safety and traffic

lights; building, running and maintaining the public water transportation and sewage systems; renovation and recycling of domestic waste; running and maintaining public parks and toilets, sports facilities and playgrounds; and developing public residential- and industrial areas. The technical department has 90 employees, and since 1996 is has been headed by Mr. Knut Hjalmar Gulliksen.

The Work and Employment department was also established as a result unit in 1996. The department aims to "provide work or other occupation to people whose work-capacity or competence is unresolved and to people who for some other reason have not made a choice of occupation " (department plan 2001:2). The overall goal of the department is to empower people; get people off benefits and into paid occupation. Related to this, the department works to help immigrants get integrated in the community. Typical clients are immigrants without the necessary language skills, physically challenged and mentally ill people. The department is made up of 11 sub-units, with their own managers. These all provide work-related training, like language skills, technical skills and social skills. In total the department has 60 employees. Since 1997 Mr. Audun Auby has headed the department.

The Culture and Sports department was established in 1996. Before then it was part of the larger cultural sector in the municipality, together with institutions like the library, museums and the cinema. The department is responsible for arranging and facilitating cultural activities like music, dance, theatre, literature, arts and sports and other outdoor activities. The department targets both the public at large and prioritised groups like children, elderly, immigrants, physically disabled and mentally challenged. In part the department has its own arrangements, and in part it guides and economically supports the relevant organisations from the voluntary sector. Since 1996 Mrs. Marit Wold has headed the department.

Byskogen primary school is one of the largest of the municipality's 25 primary schools. Since 1995 the principal of the school has been Mrs. Eva Børven Olsen.

3.3 Methodology

This thesis has an embedded multiple-case design, in that it compares the change experiences of across four organisational units (Yin 1994: 51). The analytical focus is on case study settings, a method of investigation that facilitates the study of phenomena in more depth.

A key design choice was what organisational units to study. I wanted my choice to rise to the challenge posed by Hyndman and Eden. In their comparison of several UK executive agencies in the 1990s, the authors conclude that to understand the operation of performance management systems, and to encourage the development of more appropriate ones, clinical research dis-aggregated into areas of service activity within the wider agency is needed Hyndman and Eden (2000:189). I.e., my decision fell on studying the parallel change experiences of four functional departments within the context of one large governmental organisation, Larvik Municipality in Norway: the Technical department, the Culture and sports department, Byskogen school and the Work and Employment department.

Within these case study settings the study explores how the departments have "improvised" the implementation of the balanced scorecard. "Improvisation" is a term used by Karl E. Weick to describe change processes that cannot be subject to "command and control", because the end-state is not clearly defined, and "the road is made while underway". Improvisation is not without control, however. It is controlled by frames of reference, embodied in such things as the vocabulary of the organisation, procedural and substantive routines and socialisation practices (Weick 2001:77).

The methodological implication of my choice of units of study was that my multiple-case study would have a "most similar"-design (Lijphart 1975:163). This is a design suited to explain differences in outcome (i.e. "value" on the dependent variable) among a set of very similar cases (i.e. most independent variables are equal across the cases). In order to isolate the "critical difference" (i.e. the one independent variable) that explains the observed difference in outcome, the researcher strives for similarity on as many as possible of the "control variables" – the independent variables that *might* explain the outcome.

In my research design, the "dependent variable" is differences in management accounting practices. However, the departments are similar in most respects.: Their context is similar, in that they share a common national, historical and geographical setting. Furthermore, at the start of the change experience in 1996, their "administrative situation" (Simon 1946) was much the same: They were all under economic strain, and all faced the challenge posed by changes in both political and administrative leadership. And most importantly, during the whole 1996-2001, they shared the same pressure from upper political and administrative management to implement a balanced scorecard. These are all features (i.e. "independent variables") that *might have* explained differences in outcome, if they varied. The fact that these do not vary in my design, that they in fact are equal across the departments, is how I try to keep the "control variables" constant.

The one independent variable that guided my choice of departments *within* Larvik – the "critical difference" assumed to explain the differences in management accounting practices - was "organisational technology"; the theoretical framework outlined in section 2.3 above. The four departments mentioned were i.e. neither chosen arbitrarily, nor pushed forward by the CEO as his "shining examples". They were selected by the researcher from the "menu" of 65 departments because they represented the desired variety in "organisational technologies". The departments' variety on this aspect provided a site for "testing" hypothesises 1A-1C, produced by the contingency theory framework.

A better design would obviously be to include more units of observation; preferably at least two departments representing each ideal-type organisational technology. Such a design could reveal whether departments with the same organisational technology – contrary to my hypothesis - showed different improvisations of the BSC-reform. However, such a design by far escapes the scope and – not least – the research economy of this thesis.

Research methods

In examining the issues at stake the thesis has sought to achieve a triangulation (Denzin 1978). The material used to narrate the change experiences in Larvik stems

from two sources, interviews and document studies. I interviewed the Chief Executive Officer (CEO), Mr. Gaustad, the Financial Officer (FO), Mr. Hellnes, and the executive managers of each of the four departments studied. The six interviews, performed 26.06.-27.06.2001, were thematic, semi-directed individual interviews and lasted approximately one hour each.

To avoid the problems posed by a weak memory and slow hand-writing, a tape recorder was used throughout. These recordings were subsequently transcripted word-by-word by the researcher. As such, the reliability of the interview material is high. In general, the presence of a tape recorder is said to pose the risk of a decreased quality of information, as informants put restrictions upon themselves at the sight of it. This was not a problem in this case, as I asked for no confidential or compromitting information. None were needed for the purposes of this study.

Obviously, the interviews were conducted in Norwegian. The material used is hence translated to English by the researcher. This might be considered a problem for reliability, as meaning and connotations might get lost in the translation. All interview persons have been given the opportunity to read through the quotes used, though, and no complaints were made.

In addition to the interview material I have studied all available factual accounts of the change experiences. For the whole period, 1996-2001, I have studied all annual department plans [virksomhetsplaner], monthly and tertiary performance reports and manager contracts from each of the four departments. None of these are available to the general public. In addition, I have read the annual municipal plans and reports [årsplaner og årsrapporter]. These are available to the public.

The key part of the document studies has been the analysis of performance indicators (PIs) in the annual department plans. In the following chapter, these PIs are referred to in accordance with the typology outlined on p.12-15 and illustrated by Figure 1 on p.15. The reliability of this method should be acceptable, as these department plans are available to anyone who would care to ask for them. Moreover, although not clear-cut, the PI-typology is thoroughly outlined, based on work by established theorists, and well illustrated both on p.12-15 and in the narration throughout chapter four.

Part 2 ANALYSIS

4 Case Material

I will narrate the 1996-2001 change experiences of the four departments in three bulks, 1996-1999, 1999-2000 and 2000-2001, in accordance with what my informants all agree are the milestones in the Larvik change experience (interviews).

4.1 First Period, 1996-1999

As mentioned, the change experiences started in 1996, when the newly elected centre-conservative political coalition and the new CEO of Larvik municipality agreed to implement a new model of management in the administration, along the lines of what this thesis has defined as a performance management model..

Some quite drastic structural changes were made. The handful of functional sectors, like health, work, school, culture and technical were dissolved into 65 result units. Each elderly home, each cultural institution and each school, like Byskogen, became "result units" – or *departments* –, and were delegated powers that gave them much discretion from hierarchical interference[7]. Along with the sector-level went the sector heads. They were replaced with three functional "municipality directors", directly under the CEO. The heads of each department were given the status of department managers. I.e., all the four departments studied here were established as result units in 1996.

The rest of the main changes to the management system are summarised below, under the headings of management control, strategic management and organisational learning respectively. Sections 4.1.1 - 4.1.4 will show how these changes to the structures and rules for the performance management system were improvised somewhat differently across our four departments. Section 4.1.5. summarises the observations.

[7] Cf. discussion of "responsibility centres, in footnote 1 on page 5

Management control

What management control practices were planned in this period? As for the director and detector components of management control, the municipality's 2. tertiary report from 1999 states that in this period, measuring and reporting of performance was a central element in and a prerequisite for the flat organisational model. A "prerequisite", because the wide delegation of authority to the departments meant that detailed knowledge and oversight about activities and budgets would only be at department level (p. 2). Indeed, the **director** component was that the departments were required to develop an annual budget for the department, in which they were to identify several financial PIs and some non-financial PIs for the coming year's activity. The **detector** component was a system of tertiary reporting of performance on both the financial and the non-financial PIs (1998 Annual report).

The main **effector** component was the introduction in 1998 of a system for transferring of the departments' over- and under-consumption of funds (relative to budget) from one year to the next (1999 Annual report). In 1998 the system was only partially implemented though, in that no over-consumption was transferred, and only parts of the under-consumption was. The reasons were that the departments needed some time to get used to the system and that the municipality had economic difficulties, respectively (1998 Annual report).

Strategic management

I do not interpret any of the managerial interventions in this first period as attempts to enhance strategic management in the organisation.

Organisational learning

Only modest alterations to the departments' learning behaviour were intended in this period. As mentioned on p.50, my treatment of **scanning behaviour** will overlap the director component, since a good indicator of the departments' scanning behaviour is what PIs they make use of. Hence, the requirement on the part of the departments to develop non-financial PIs, and to assess actual performance on these every tertiary, was indeed an attempt to bring the departments into a more active intrusiveness mode.

If nothing else, this requirement would mean that the department would have to get involved with regular scanning activities.

4.1.1 First Period, 1996-1999, the Technical department

In addition to the identification of the limited number of PIs that were to be reported tertiary to the CEO, the manager of the Technical department, Mr. Gulliksen, made annual "department plans" (a financial and non-financial/operational budget). He started working on the first of these in 1997, to plan 1998. As the 1999 department plan is very similar in both format and content, I will only describe the 1998-plan. In the 19-page department plan for 1998, "expenses", "result goals", "projects" and "activity" were listed for each of the department's four core areas of activity; roads, water, sewage etc. plus administration.

All areas of activity taken together, ten PIs were listed.

- Nine of which were outcome dials (e.g. "no consumers shall ever be without water for more than 12 hours continuously", p.8), and
- one was a process dial ("receive no complaints from consumers about the quality of maintenance of [a list of recreational areas]"[a social test]).
- Eight of these ten PIs were instrumental tests; two were social tests.

In the foreword to the department plan for 1999, Mr. Gulliksen has written that the plan was developed in a process that started in the fall of 1998, and where "several people" had participated. Nonetheless, of the processes leading to the department plans for both 1998 and 1999, and the result goals in them, Mr. Gulliksen says in hindsight that the inclusion of staff was neither very deep nor broad. The department plans for 1998 and 1999 were mainly plans developed by himself and his closest aides, for the rest of the staff (interview).

The financial and ten non-financial PIs were reported tertiary. And in the third tertiary report, Mr. Gulliksen wrote short comments to all deviations from the plan (1998 Annual report).

In addition there was indeed a manager-contract between Mr. Gulliksen and the relevant middle-line director of the municipality since 1996, but this contract was not specific about department performance. It was more about loyalty towards the

municipality and about the manager's obligation to respect legal frames and tariffs (interview).

For 1998 the Technical department had an over-consumption of funds relative to budget of NOK 4,1m. This was not transferred to the 1999 budget.

4.1.2 First Period, 1996-1999, the Work and Employment department

The Work and Employment department did not develop department plans in this period. Hence, what PIs that were agreed between the manager, Mr. Auby, and the CEO must be read off the tertiary reports.

In 1998, eleven non-financial PIs were set down (1998 Annual report),

- Two of which were outcome dials (e.g. 54 clients in activity at Gjærstad activity-centre),
- one was an outcome tin-opener (45 benefit claimants shall be transferred to paid occupation), and
- eight were structural dials (e.g. reorganise the department so that quantified goals can be achieved in the future).
- All eleven PIs were instrumental

The financial and 11 non-financial PIs were reported tertiary. And in the third tertiary report, Mr. Auby wrote short comments to all deviations from the plan (1998 Annual report).

For 1998 the Work and Employment department had an under-consumption of funds relative to budget of NOK 164.000. This was transferred to the 1999 budget.

4.1.3 First Period, 1996-1999, The Culture and Sports department

The Culture and Sports department did not develop department plans in this period, only "straightforward activity-plans, for use inside the department only" (interview). Hence, what PIs that were agreed between the CEO and the department manager, Mrs. Wold, must be read off the tertiary reports.

In 1998, five non-financial PIs were set down (1998 Annual report),

- Four of which were outcome dials (e.g. 16 theatre plays for children), and

- one was an outcome tin-opener (25.000 visits to communal swimming facilities).
- All five PIs were instrumental tests.

The financial and five non-financial PIs were reported tertiary. And in the third tertiary report, Mrs. Wold wrote short comments to all deviations from the plan (1998 Annual report).

For 1998 the Culture and Sports department had an under-consumption of funds relative to budget of NOK 138.000. This was transferred to the 1999 budget.

4.1.4 First Period, 1996-1999, Byskogen primary school

The principal, Mrs. Olsen, made department plans for all years in this period, 1997, 1998 and 1999, after a model she had developed herself and was very happy with (interview). These plans had, like the Technical department's, lists of "activities" divided into focus areas. I.e., they are simply long lists of everything the department plans do over the coming year, when they are supposed to be completed and who is responsible. As an illustration, the 1998 department plan has 37 items on this list. To the extent these can be seen as performance indicators, they are all structural dials. Most items are about development of facilities and training of staff, like "buy equipment for art classes", "teach the teachers how to use the Internet" and "start a choir for the personnel".

Mrs. Olsen agreed to choose three of these structural dials/"activities" as focus areas for the school, and report performance on them tertiary to the CEO. Apart from these 37, that can hardly be considered "real" PIs, the department reported on five non-financial PIs in 1998 (1998 Annual report).

- One of which was an outcome tin opener (Reading skills in 5th grade),
- three were structural dials (e.g. 12 pupils per teacher on average), and
- one was a structural tin-openers (83% of 6th graders shall feel comfortable at school [a social test]).
- One of the five PIs was a social tests, the rest instrumental.

For 1998 Byskogen had an under-consumption of funds relative to budget of NOK 12.000. This was transferred to the 1999 budget.

4.1.5 First Period, 1996-1999, Summary of observations

We see that the management system in important ways worked similarly across the four departments. All reported tertiary on both financial and non-financial PIs, in accordance with the procedure decided by the CEO. And the budget-transferring system worked similar, as far as it had been implemented.

Nonetheless, we can also observe that in spite of the common structures and rules, there were some differences in **management control** practices across the departments. One is whether department plans were developed, as the Culture and sports department did not do so in this period. The second relates to the *number* of PIs the departments reported on in their tertiary performance reports to the CEO: from 11 (Work and employment) and ten (Technical) to five (Byskogen and Culture and sports). The third difference is the *kinds* of PIs the departments reported on. Only two of the departments developed socially tested PIs in addition to instrumental ones (Technical and Byskogen), the other two only instrumental.

In terms of **learning behaviour**, this means that by 1999, the reform had brought all four departments into a slightly more active intrusiveness mode. The requirement upon them to issue tertiary performance reports meant that all departments now conducted regular scanning activities. Other than the minor differences in number and kinds of PIs mentioned above, no differences in learning behaviour deserves mentioning in this first period.

4.2 Second Period, 1999-2000

In 1999, the economic problems in Larvik forced the politicians to look for new ways of cutting down costs. At this point, they brought in Mr. Einar Gaustad as CEO, as replacement for Mrs. Holtskog. In order to increase financial control, the politicians gave Mr. Gaustad wide delegations and discretion to implement the management accounting and control system “the total balance scorecard”; a system Mr. Gaustad brought with him from his previous position as CEO in another municipality (2.

tertiary report 1999, interview)[8]. Accordingly, building on the 1996-1999-foundation, Mr. Gaustad made several changes to the management system[9].

The remainder of the middle-line between the CEO and the departments - the three communal directors - were removed in March 2000, and the department managers were delegated full authority over their respective budgeting, wages, personnel issues and service delivery (Annual Report 1999, interview).

The rest of the main changes to the management system are summarised below, under the headings of management control, strategic management and organisational learning respectively. As sections 4.2.1 - 4.2.4 will show, these changes to the structures and rules for the performance management system were improvised somewhat differently across our four departments. Section 4.2.5. summarises the observations.

Management control

The main change to the **director** component of management control was that all managers were required to develop annual department plans, starting in 1999 with the planning of 2000. The format was not dictated, but economic PIs apart, the departments were required to include in their department plans three "municipality-wide" PIs for work environment (see below). In addition, all departments were urged to develop and include in the plan specific PIs for their respective service areas, either quantified or "verbal" (2. tertiary report 1999, p.2, interview).

The main change in the **detector** component was that from 2000, all department managers were required to write monthly and tertiary performance reports to the CEO. The monthly reports should include quantified information on the PIs for economy and the three "municipality-wide" PIs for work environment. The tertiary reports, due 30. April, 31. August and 31. December, were to include information on other non-financial performance as well, related to PIs in the department plans. The third tertiary report would also serve as the annual end-of-the-year-performance report from the

[8] The "Total" BSC supplements the above-mentioned financial-, user- and internal business perspectives with the environmental perspective (Public Annual report from Larvik municipality, 1999).

[9] An important related event was the start of the so-called "Ronja-jump", named after Ronja, the fictitious little girl who made a seemingly impossible jump across a canyon in a book by Astrid Lindgren. In Larvik, the "Ronja-jump" labelled an extensive cut-back process, initiated in the summer of 1999. All departments were required to make suggestions on how they

department. Both the monthly and tertiary reports were to be based on standard forms, developed by the CEO unit (see example of standard form attached).

Three important changes were made to the **effector** component. First, in case of deviations from the plan, both the monthly and the tertiary reports were to include information on what measures the manager had taken or was planning to take in order to get back on track. I interpret this as an effector mechanism because it would provide a strong incentive for the managers to keep their respective departments "on track". Their professional pride would gear them to make efforts to avoid showing off poor performance. Also, information on whether the manager needed help to get back on track was to be included (2. tertiary report 1999, p.2, interview). In fact, the standard forms for monthly and tertiary reports had separate columns for "deviations", "efforts taken" and "support needed". For each PI, the department managers were to write "yes" or "no" in the "deviations"-column, and in case of "no", also fill out the two other columns.

The second change was the full introduction of the transferring system for over- and under-consumption of funds, relative to budget. Now a department's over-consumption would lead to an equivalent reduction in its budget for the following year[10].

The third effector-related change was that from 2000, all department managers would have performance-based "manager contracts" with the CEO, with specified links to the PIs in their department plans. These contracts would be revised annually (interview).

Strategic management

As mentioned above, starting in 1999, the departments were required to include three "municipality-wide" PIs in their department plans, and report on them every month. I interpret this requirement as an effort done by the CEO to establish a hierarchy of objectives; i.e. an effort to enhance strategic management in the organisation.

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could contribute to the goal of a 11% cut-back in total costs over three years. Over NOK 70 millions (about £5,5 millions) was to be slashed in 1999 alone.

[10] Within a 5% limit of budget. If a department had an under- or over-consumption of funds of e.g. 7% of its budget, only 5% was to be transferred to next year's budget (interview with the Financial Officer)

These three "municipality-wide" PIs were all measures of work environment; i.e. measures of structural organisational efficiency (cf. p.13). One was a structural dial: *the ratio of the department's employees who have a one-to-one employee-conversation with the manager*; one was a structural tin-opener: *total sick leave*; and one was something in-between: *the number of accepted suggestions from the employees for department improvements*[11].

Organisational learning

Changes were also made with intent to enhance organisational learning in the organisation. In terms of **scanning behaviour**, the CEO wanted the departments to make more systematic use of views and other feedback from stakeholders like users and staff. As a result, from 1999, the CEO unit conducted standardised work climate surveys [klimaundersøkelser] in all departments and a user survey among the inhabitants. This survey took the form of a questionnaire with questions about the inhabitants satisfaction with all services provided [brukerundersøkelser] (interview with Mr. Hellenes).

In order to enhance **interpretation behaviour** in the organisation, the department managers were to have two individual annual meetings with their superiors. They were to meet once a year with the CEO, to discuss overall departmental performance [medarbeidersamtale] and discuss revision of the manager contract, and once with some other CEO representative to discuss how to follow up on the results of the user- and staff surveys in particular (interview with Mrs. Olsen).

4.2.1 Second Period, 1999-2000, the Technical department

In developing the department plan for 2000 and its PIs, Mr. Gulliksen involved all his employees. The employees worked in groups to identify and specify PIs within their respective parts of the department (interview). Performance on the department's PIs

[11] This PI has two aspects. The first, whether suggestions are brought out or not, I consider to be a dial. The second is whether suggestions are accepted. To some extent this too is a dial, as it can be a matter of the good-will and openness of the department manager. But the quality of the suggestions obviously also play in. Hence, I denote this structural PI as something in-between a dial and a tin-opener.

were reported on monthly and tertiary, and Mr. Gulliksen signed a manager contract in this period; everything in accordance with the procedures the CEO had decided.

Mr. Gulliksen did include the three municipality-wide PIs in his department plan for 2000; a plan with in total 26 non-financial PIs:

- 18 of which were outcome-dials (e.g. 85% of all tests of drinking water shall be of satisfactory quality, p.8),
- seven were structural dials (e.g. "Within December 1. all employees shall receive a job-description [stillingsinstruks] and have a plan for development of individual professional competence and involvement", p.19), and
- one was a structural tin-opener (Percentage sick-leave, p.19).
- all 26 PIs were instrumental tests.

For 1999 the Technical department had an over-consumption of funds relative to budget of NOK 433.000. This was transferred to the 2000 budget.

As for **learning behaviour**, the user survey the CEO unit conducted among all inhabitants spurred the Technical to engage in more active scanning and interpretation behaviour. The year when a "sorting and recycling system" for domestic waste was introduced in the municipality, the Technical department received "massive critique and a terrible score on the user survey" (interview with Mr. Gulliksen). But the data from the user survey was very general, ala 1-10 ratings on questions like "how satisfied are you with the renovation services in Larvik"", and i.e. difficult to interpret. Mr. Gulliksen explains how the department used the negative result:

> *If you ask general questions, you get general feedback. If you ask more specific questions, you get something else. I guess you can say that the general user survey was useful to us because it gave us reason to find out more. It was an indication that something had to be done* (interview)

What the department did, was to conduct a more specific user survey, with e.g. questions about the renovation services and the recycling system. The feedback obtained from this survey was in turn used directly in the development of the department's services.

4.2.2 Second Period, 1999-2000, the Work and Employment department

The department issued monthly and tertiary performance reports in this period, in accordance with the procedures the CEO had decided.

Mr. Auby did include the three municipality-wide PIs in his department plan for 2000; a plan with in total nine non-financial PIs:

- one was an outcome tin-opener (27% of all benefit claimants shall be transferred to paid occupation or the national insurance scheme, p.12),
- seven were structural dials (e.g. within 01.02.00 have a plan for individual employee training, related to the respective position instructions, p.12), and
- one was a structural tin-opener (percentage sick-leave, p.19).
- All nine PIs were instrumental tests.

For 1999 the Work and Employment department had an over-consumption of funds relative to budget of NOK 200.000. This was transferred to the 2000 budget.

As for **learning behaviour**, Mr. Auby participated in the two annual meetings with superiors, and hence followed the procedures laid down by the CEO.

4.2.3 Second Period, 1999-2000, the Culture and Sports department

The department manager, Mrs. Wold, did develop a department plan for 2000, but not one with PIs ready for assessment. It was more akin to the internal work-plans the departments used to have than the plans developed by the other three departments in this period. In Mrs. Wold's own words, the 2000-department plan for the Culture and Sports department was "much like a list of what we were going to do at 1pm and 2pm in January and February" (interview).

Hence, what PIs that were agreed between the head, Mrs. Wold, and the CEO must again be read off the department's monthly and tertiary performance reports. In 2000, the department reported on five non-financial PIs, including the three municipality-wide ones (1998 Annual report):

- four of which were outcome dials (e.g. 16 theatre plays for children), and
- one was an outcome tin-opener (25.000 visits to communal swimming facilities).

- All five PIs were instrumental tests.

For 1999 the Culture and Sports department had an under-consumption of funds relative to budget of NOK 297.000. This was transferred to the 2000 budget.

Mrs. Wold did not sign a manager contract with the CEO in this period, simply because she "did not get around to do it" (interview).

As for **learning behaviour**, Mrs. Wold participated in the two annual meetings with superiors, and hence followed the procedures laid down by the CEO.

4.2.4 Second Period, 1999-2000, Byskogen primary school

Mrs. Olsen did include the three municipality-wide PIs in her department plan for 2000; a plan with in total 12 non-financial PIs:

- one was an outcome dial (20% of all pupils use IT for school work regularly),
- eight were structural dials (e.g. 38% of all work shall be performed by full-time employees), and
- three were structural tin openers (e.g. 70% of all employees feel they get the training they need to perform their job well [a social test]).
- Three of the 12 PIs were social tests; nine were instrumental.

The department's PIs were reported on monthly and tertiary, according to the procedures the CEO had decided. Mrs. Olsen did not sign a manager contract with the CEO in this period, though, because the powerful Norwegian teachers' union strongly warned her and the other principals in the municipality against signing. The union feared for the teachers' professional discretion and wage-restrictions (interviews with Mrs. Olsen and Mr. Gaustad).

For 1999 Byskogen had an under-consumption of funds relative to budget of NOK 19.000. This was transferred to the 2000 budget.

As for **learning behaviour**, Mrs. Olsen describes the data obtained from user and staff surveys as rather difficult to interpret. Asked what implications a good or bad result on the user surveys had for her, this was her answer:

The thing is, I know that external factors obviously play in [on the score/result]. *But I can try to identify those factors and say "that is not my responsibility". It can be poor maintenance of buildings, not enough resources for new books and so on. But*

what is *dependent on the job I do, is whether the school is well organised, whether the parents receive good information, whether the parents have a say, whether the teachers respect the pupils and so on* (interview).

However, she did find that the annual meetings with a CEO representative were helpful in interpreting such data:

In the case of a poor result on any of the surveys, we discuss what efforts I should be thinking about making. (...) But in these discussions, it is me as a manager who's responsible for drawing the conclusions and implementing the necessary changes. The people from the CEO unit just assist; they never take over the responsibility (interview).

4.2.5 Second Period, 1999-2000, Summary of observations

We see that in terms of **management control** practices, Mr. Gaustad's performance management system in important ways worked very similar across the four departments. All departments developed department plans, all but the Culture and Sports department with PIs ready for assessment. All departments reported on PIs monthly and tertiary, in accordance with the procedure. decided by the CEO.

Furthermore, the mechanism for transferring of over- and under-consumption of funds worked according to the CEO's plan in all departments. All my informants, including the managers who got reduced 2000-budgets because of it, confirm that this mechanism worked well. The Financial Officer said,

In case of deviations from budget, the reasons for it shall be discussed. We'll neither reward nor punish the departments economically if the deviations are due to things they have no control over. There is surprisingly little discussion over which is which, considering the large sums involved (interview).

The substantial similarities apart, we observed at least four quite substantial differences in management control practices in this period. The first relates to the number of PIs used. The Technical department, with 26, had many more than the others; nine (Work and employment and Byskogen) and five (Culture and sports).

The second is the kinds of PIs used. Byskogen School stands out, in being the only department to use social tests in this period, and the only one not to make use of

outcome dials. This means that overall, very few social tests were used. All departments taken together, only 3 out of 54 PIs were social tests; the rest instrumental. Note that all four departments identified plenty of structural PIs, however. The Work and Employment basically used structural dials only, while Byskogen School used both structural dials and structural tin openers. A notable change from the first period is that the Technical department started using structural PIs, not only outcome.

A third difference in management control practice was the role of the department staff in the process leading to the department plans. There were differences between the department in both the breadth and depth of the inclusiveness of departmental staff in the development of the department plans.

Finally, the use of manager contracts varied. Only two of the managers signed manager contracts in this period. The principal of Byskogen and the manager of the Culture and Sports department did not, however for quite different reasons. The first did not sign for "political" reasons; the latter because she forgot to.

In terms of **strategic management**, all departments followed the procedures prescribed by the CEO, in that they all include the three municipality-wide PIs for work environment in their department plans.

As for **learning behaviour**, all four departments had arguably been brought into more active intrusiveness modes during the course of this second period. The above-mentioned substantial differences in the use of PIs aside, all departments by now identified a number of PIs in their department plans. This *scanning* provided the departments with regular feedback, as performance on the PIs were to be reported regularly. Data was also obtained in the form of the views of users and staff. This was channelled through the user and staff surveys and through the extent to which the department managers' had one-to-one conversations with their staff[12]. As for *interpretation behaviour*, all four managers had two annual meetings with superiors in this period. Once they met with the CEO, to discuss overall departmental performance [medarbeidersamtale], and once with a CEO representative - to follow up on the results of the user- and staff surveys in particular.

4.3 Third Period, 2000-2001

Mr. Gaustad made several changes to the management system during 2000. The main changes can be summarised under the headings of management control, strategic management and organisational learning respectively. Sections 4.3.1-4.3.4 will show how these changes to the structures and rules for the management system once again were improvised somewhat differently across our four departments. Section 4.3.5. summarises the observations.

Management control

Important changes were made to the **director** component of management control. From 2000, the department managers were required to institutionalise internal processes that involved all staff in the development of the annual department plans (interview with Mr. Hellnes and Mr. Gulliksen). A second change in the director component was the introduction of standard macros for department plans. In this macro, one part was for PIs, another for activities explicitly aimed at performing well on these indicators. Finally, managers in the so-called "result support groups" [resultatsikringsgrupper] (see next paragraph) were to quality-check each others' drafts for department plans (interview with Mrs. Olsen).

The main change in the **detector** component was the introduction in the beginning of 2000 of so-called "result support groups". These groups consisted of one "process-guide" from the CEO unit and 6-8 department managers from different functional sectors[13]. In total nine such groups were started. These were to meet every other month to discuss how the departments performed. At the start of each meeting, the group was to go through the monthly performance reports form each department. Those managers who were "off track" on any PI were required to explain what she/he had done to get back on track. Then the manager would receive help and advice from both the advisor from the CEO unit and the other department managers in the group (interviews).

[12] Recall that one of the commune-wide PIs in this period was "the ratio of the department's employees who have a one-to-one employee-conversation [medarbeidersamtale] with the manager".

[13] For illustrative purposes: In 2000, one result support group consisted of a process leader from the CEO unit and the managers of the following six departments: one nursery, one secondary school, the Social care department, the Asylum shelter, the Culture school and the HR department (interview with Mrs. Olsen)

Two main changes in the **effector** component were made. First, the CEO unit developed standard macros for the manager contracts, in which the ties to PIs in department plans were made explicit. This meant that the managers were obliged by contract to make efforts to perform well on the PIs. Second, the introduction of the above-mentioned cross-departmental "Result support groups" meant that a strong informal peer-group review mechanism (Hood 1998) was institutionalised. This mechanism would take advantage of the managers' presumed desire to show their peers that they were doing a good job.

Strategic management

From 2000 Mr. Gaustad institutionalised a new process with the intent to further enhance strategic management in the organisation. Mr. Gaustad wanted all departments to agree on two municipality-wide "administrative focus areas" for the coming year. This was to be mechanism for enabling the whole administration to focus and co-ordinate its efforts. The start of this process would be that all department managers systematically involved their employees to bring out any suggestions they might have for such "focus areas". The managers would then bring these suggestions to the first of the annual tertiary "manager-meetings", where each of the 65 department managers and the CEO had one vote each. This "manager-meeting" was in turn to decide by vote what the focus areas were to be for the following year. The decision made in 2000 - for 2001 - was "competence" and "co-operation"; both measures of structural organisational efficiency (cf. p.13).

Subsequent to this, all departments were to identify their own PIs for these focus areas, and include them in their department plans. As for the other PIs, the new standard for department plans required a section listing activities explicitly aimed at performing well on each and every one (interview with the Financial Officer). (See macro attached).

Furthermore, all departments were still required to report monthly on the three municipal-wide PIs for work environment (see section 4.2, p.63f)

Organisational learning

Changes were also made with intent to enhance organisational learning in the organisation. In terms of **scanning behaviour**, the CEO institutionalised an arrangement called "public feedback reports" [meldingsordningen] from 2000. The general public was urged to give the municipality reports about their satisfaction or dissatisfaction concerning any aspect of services provided. Forms for this purpose was sent to the inhabitants by mail once a year and made available in all municipal offices and on the internet. Once such a form received by the municipality, either by hand, mail or electronically, it was to distributed swiftly to the department responsible for the service in question. Within 14 days of submittal, the complainer was to be contacted with notice of how the municipality had dealt with his or her report (interview with Mr. Gulliksen).

The above-mentioned introduction of the "result support groups" did not only provide a new detector/effector component of management control; it was also intended to enhance **interpretation behaviour** in the organisation. The CEO wanted the department managers to draw on each other to better interpret data received from all kinds of PIs, not least the results from social tests like user- and staff surveys.

4.3.1 Third Period, 2000-2001, the Technical department

In terms of **management control** practices, Mr. Gulliksen did everything according to the CEO's plan: He included all his employees in the development of the department plan for 2001, identified in it PIs for the "administrative focus areas", participated in the "result support groups", reported monthly and tertiary, and signed the revised manager contract.

> *In planning 2001 we went further down in the organisation than ever before*, Mr. Gulliksen said. *All my 90 employees participated. I let them work in groups, and asked them to make suggestions for concrete objectives. (...) We did some work to include staff in planning for 2000 as well, but not like this* (interview).

Including the three municipality-wide PIs, the 2001 department plan from the Technical department had in total 40 non-financial PIs.

- 25 were outcome dials (e.g. reduce by 15% the amount of pesticides used in public parks)
- one was a procedural dial (compliance with environmental standards in 60% of all projects),
- six were structural dials (e.g. all employees shall complete a conflict handling-course), and
- eight were structural tin openers (e.g.20% increase in job satisfaction on 2001 work climate survey [a social test]).
- Eight of the 40 PIs were social tests; 32 were instrumental.

For 2000 the Technical department had an over-consumption of funds relative to budget of NOK 773.223. Of this, NOK 569.223 was transferred to the 2001 budget. The reduction in transfer was due to "unforeseen administrative changes" (2000 Annual report, p.66)[14].

In terms of **strategic management** practice, the department plan for 2001 included the three municipality-wide PIs for work environment and four PIs with direct reference to the "administrative focus areas". The plan listed a range of "Efforts" linked to each of these PIs. The above mentioned "20% increase in job satisfaction on 2001 work climate survey" was one such PI – related to the focus area "Co-operation". Ten "Efforts" were in turned listed with reference to this PI. Examples were "Make an internal "who's who"-folder with pictures of all employees in all sub-groups" and "Arrange a joint Christmas party [julebord] for all sub-groups".

As for **learning behaviour**, Mr. Gulliksen was the only department manager interviewed who emphasised the importance of the "public reports"-arrangement as a source of feedback. As a matter of fact, about 50% of all reports issued were related to services provided by the Technical department. The sheer amount of reports that complained about bad road condition prompted the municipality's politicians [kommunestyret] to grant the department with NOK 6,5 millions extra for 2001, ear-marked for road maintenance (interview with Mr. Gulliksen).

[14] The Financial Officer, Mr. Hellnes, explained the phenomenon of "unforeseen changes": "If under- or over-consumption of funds are due to things the department manager could not have foreseen at the time of planning, we will neither reward nor punish him for it. (…) There has in fact been little discussion over this, but some in the schools. A head teacher [with an over-consumption] might say: 'But in my school we have so difficult pupils, we have four autistic' and so on. Then we say:

In Mr. Gulliksen's experience, the "result support groups" were helpful for both scanning and interpretation activities. Related to scanning, he had used the groups "to get ideas for new PIs and to make the existing PIs as concrete as possible" (interview).

4.3.2 Third Period, 2000-2001, the Work and Employment department

In terms of **management control** practice, Mr. Auby too did everything according to the CEO's plan. He included all his sub-units and employees in the development of the department plan for 2001, participated in the "result support groups", issued performance reports monthly and tertiary, and signed the revised manager contract..

Including the three municipality-wide PIs, the 2001 department plan from the Work and Employment department had in total 12 non-financial PIs[15],

- one was an outcome tin-opener (*25% of all benefit claimants shall be transferred to paid occupation or the national insurance scheme*),
- ten were structural dials (e.g. *institutionalise meetings between the. department and the municipality's Social benefits department*), and
- one was a structural tin-opener (*percentage sick-leave*).
- All 12 PIs were instrumental tests.

For 2000 the Work and Employment department had an over-consumption of funds relative to budget of NOK 350.732. This was not transferred to the 2001 budget. According to the Financial Officer, this was a reward for the department's hard work and record rate this year in getting benefit claimants into paid occupation, and thereby saving the municipality NOK 5m in benefit payments (interview). This shows that the budget-transferring mechanism was not operated purely as a dial. Some interpretation was used. But note that over the whole period studied, 1996-2001, this is one of only two exceptions from the "direct transfer"-rule.

Mr. Auby seemed to perceive of his *manager contract* as binding. He explained how his contract gave two options in the case of major deviations between the planned and actual performance on key PIs. If the deviations could be explained by his poor

'You knew about those four autistic pupils all along, so you'll have to struggle with your over-consumption'. That's not 'unforeseen changes'; that's over-consumption within a normal situation ['normal driftssituasjon']" (interview).

[15] In addition, all of the Work and Employment department's 11 sub-groups developed PIs that measured their contributions to the achievement of the department's goals. The workings of these sub-groups far escape the scope of this thesis, however.

performance, he would either be fired, or he would be repositioned within the municipality, to some non-executive position (interview). This "if" was however an important qualification. Mr. Auby explained what would happen in the case of major deviations from the plan, e.g. on the above mentioned outcome tin-opener "25% of all benefit claimants shall be transferred to paid occupation or the national insurance scheme"

> *We* [the CEO and himself] *would obviously have to negotiate. If the poor performance was not due to things out of my control, I'd be in trouble. But what counts as relevant external factors is not specified* [in his contract]. (…) *And that can be many things. Changes in the rules about benefit claims, (...) the mood of the labour market,* (…) *sudden changes in the number of immigrants* (…) (interview).

This serves to illustrate the difference between PIs that are tin openers and dials. As discussed earlier, to make out the implications of performance on tin opener dials, negotiation and interpretation is needed. This aspect of the director component of management control greatly influenced the effector-potential of the manager contract. The contract did indeed compel Mr. Auby to perform well on his PIs, but it was not perceived as a direct threat to his job.

Mr. Auby explained the absence of social tests with practical difficulties, specific for his department. To illustrate, Mr. Auby, gave two examples. First, the department runs a kindergarten for foreign-language children. The language shortages of these children's parents means that the questions the department can ask them in interviews or surveys are bound to be very simplistic. I.e., little valuable data can be obtained from such scanning activities. A second difficulty relates to clients with psychiatric problems. To find out whether such clients are satisfied with the performance of the department is very difficult, because they are often too shameful about their problems to even want to register as clients, not to mention to give the department feedback about its performance (interview).

In terms of **strategic management** practice, the department plan for 2001 included the three municipality-wide PIs for work environment as well as PIs with direct reference to the "administrative focus areas". The plan listed a range of "efforts" linked to each of these PIs. One PI linked to the "focus area" "Competence" was that

sub-group leaders were to increase their formal competence – measured in credits. An "Effort" with reference to this PI was to reorganise one of the groups so that its manager could take time off for studies without having to hire a substitute .

Mr. Auby explained his dedication to these common "focus areas" with the democratic process that had lead to them:

> *In the manager meeting I am like an ambassador for my department*, Mr. Auby explained. *I fight for the focus areas my employees want. (...) This year they were fairly happy with what I came home with - though we did have some other suggestions as well. One of our suggestions only received my vote* [in the manager meeting], *but it's a democratic process, so that's alright* (interview).

Related to learning behaviour, Mr. Auby conformed to the procedures laid down by the CEO. As illustrated by the quote above, Mr. Auby did not feel overrun by the CEO in their annual "interpreting"-discussions about the department's performance. Asked whether he felt that the result support groups provided useful advice, and whether praise from the others managers was an important source of motivation, his answer was this:

> *Yes, especially on* [common] *things like sick leave. But generally, the* [other] *managers get virtually no insight into the conglomerate I'm running here. It's not like I'm running a school. If I wanted, I could have easily fooled them about* [the department's performance on] *the PIs* [laughs]" (interview).
> (recall that the Work and Employment department was made up of 11 sub-groups).

4.3.3 Third Period, 2000-2001, The Culture and Sports department

Mrs. Wold included all her administrative employees in the development of the department plan for 2001, participated in the "result support groups" and reported monthly and tertiary; everything according to the CEO's plan. Unlike the other managers though, she had still not signed a manager contract with the CEO. "I do have a contract", she said, "but I don't think I've signed it yet" (interview).

Including the three municipality-wide PIs, the 2001 department plan from the Culture and Sports department had in total eight non-financial PIs.

- one was an outcome dial (*30% of all disabled in the municipality shall take part in some cultural event arranged by the department*),
- one was an outcome tin-opener (*a doubling of the number of sports organisations in the municipality that have included disabled in their activities*)
- five were structural dials (e.g. *all employees in the administration have competence in web-publishing of information*), and
- two were structural tin-openers (e.g. *1,6 applications per local cultural organisations processed*).
- All eight PIs were instrumental tests.

For 2000 the Culture and Sports department had an under-consumption of funds relative to budget of NOK 490.220. This was transferred to the 2001 budget.

In terms of **strategic management** practice, the Culture and Sports department plan for 2001 included the three municipality-wide PIs for work environment as well as four PIs with direct reference to the "administrative focus areas". The plan listed a range of "efforts" linked to each of these PIs. One PI linked to the "focus area" "Competence" was that sub-group leaders were to increase their formal competence – measured in credits. An "Effort" with reference to this PI was to reorganise one of the groups so that its manager could take time off for studies without having to hire a substitute .

Like Mr. Auby, Mrs. Wold was happy with the way the "administrative focus areas" were decided, and she did identify PIs for them in her department's department plan, even though she did not vote for them in the manager meeting.

> *All managers fight for their suggestions,* she said*, and some win while others lose… The focus areas that were decided now were not much fun to bring back to my department; my employees thought they were very dull. What they wanted were International orientation and Culture* (interview).

Asked why she wants to identify e.g. PIs within the "municipality-wide focus areas" and perform well on them, Mrs. Wold said,

> *I guess it's a result of a communicative effort from Einar* [the CEO, Mr. Einar Gaustad]. *Because it's not that I have a personal interest in it. I think at some point my intellect just absorbed that "this is important". And that must be because of*

how the system has been communicated in the organisation. So I guess the answer is that I just believe in it (laughs). *I actually do.* (interview)

Related to **learning behaviour** Mrs. Wold conformed to the procedures laid down by the CEO.

4.3.4 Third Period, 2000-2001, Byskogen primary school

Mrs. Olsen included all her teachers in the development of the department plan for 2001, issued performance reports monthly and tertiary, and finally signed the revised manager contract; everything according to the CEO's plan for **management control** practices.

Including the three municipality-wide PIs, the 2001 department plan from Byskogen primary school had in total 11 non-financial PIs.

- one was an outcome dial (*45% of all pupils use IT for school work regularly*),
- 7 were structural dials (e.g. *achieve 3,2 points on a national quality index for adaptation of school equipment for teaching of challenged pupils*), and
- 3 were structural tin openers (e.g. *90% of all pupils shall feel comfortable at school* [a social test]).
- Two of the 11 PIs were social tests, the rest instrumental.

For 2000 the Byskogen had an under-consumption of funds relative to budget of NOK 238.708. This was transferred to the 2001 budget.

As for **strategic management**, Mrs. Olsen too followed the procedures prescribed by the CEO. In addition to the "old" municipality-wide PIs for work environment, her 2001 department plan included three PIs with direct reference to the agreed "administrative focus areas". Two of several "Efforts" that were listed with reference to the "focus area" "Competence" was "Customise the teachers' educational needs through one-to-one employee-conversations, and customise education for ten teachers" and "Let ten teachers work for a period of time at another school".

Turning now to **organisational learning**, two changes were made by the CEO in 2000, specifically aimed at enhancing *scanning behaviour* in the 25 schools. Mrs. Olsen changed Byskogen's scanning behaviour accordingly. The first change was that each school was now to conduct biannual tests of reading skills and surveys of pupil

well-being [elevtrivsel] (interview with Mrs. Olsen). The results of these were reported to the CEO unit. Furthermore, the schools were asked to compare their performance on these PIs with that of schools in the neighbouring municipalities.

As for *interpretation behaviour*, Mrs. Olsen appeared very satisfied with the interpretation-aspect of the "result support groups". She described her experience as follows:

> *The first post* [in the meeting] *is the forthcoming monthly performance reports. We go through those quickly, "are you on course* [on the PIs] *or not". And if you say "no", we ask, "do you need help? Is there anything we can do?". It can be high sick leave (...) or anything. So you see, we lift this manager's problem in and discuss it together. And if the help from the managers in the group is not enough, the department writes in its monthly report to the CEO that it needs support. (...) This way we* [the department managers] *get insight about each other's departments, (...) and we get respect for each other's work. This makes it easier to make contact informally as well - whenever we need help with something* (interview)

The CEO made one more intervention in this period to further enhance the interpretation efforts of the schools in the municipality.

> *Some of these objectives* [PIs] *obviously spur reflection, more than anything else. So I had to find a way to make them* [school managers/heads] *sit down and think "what does this mean". That's why I've made the schools send letters to all parents, describing the results* [of the user surveys] *and stating "this is what we intend to do about it". That way you build up an expectation among the parents; an expectation they* [the school managers] *won't dare to challenge* (interview with Mr. Gaustad).

4.4 Summary of all observations

Table 4 below provides a systematised summary of the observations from this third period of the change experience. The far left column lists what I see as the key aspects

of management accounting practices, sorted under the headings of management control, strategic management and organisational learning.

Table 4: Summary of observations, 2001

ASPECTS OF MANAGEMENT ACCOUNTING PRACTICE	TECHNICAL DEPARTMENT	WORK AND EMPLOYMENT DEPARTMENT	CULTURE AND SPORTS DEPARTMENT	BYSKOGEN SCHOOL
(1) Management Control Practice				
Director 1: Development of department plans	All departments developed plans according to the prescribed routines. I.e. all plans contained a substantial number of PIs with "Efforts" directly linked to them. All plans were results of processes which included departmental staff.			
Director 2: Number of PIs in department plans, 2001	Many (40)	Relatively few (12)	Few (8)	Relatively few (11)
Director 3: How PIs were measured, 2001	Social (8) as well as instrumental tests (32)	Instrumental tests only	Instrumental tests only	Social as well as instrumental tests
Director 3: What PIs measured and how they were used, 2001 (cf. typology on p.15)	Many outcome dials, some structural dials and structural tin-openers	One outcome tin-opener, many structural dials	Structural dials and structural tin-openers	Structural dials and structural tin-openers
Detector 1 and Effector 2: Reporting routines	All departments issued monthly and tertiary performance reports to the CEO. All used the same format; with columns in the reports for information about what the manager had done to get back on track - in the case of deviations from plan on any PI			
Detector 2 and Effector 2: Participation in result support groups	The managers of all departments participated in and the cross-departmental result support groups			
Effector 3: Manager contract with links to PIs in department plans	Signed	Signed	Not signed, but a contract existed.	Signed
Effector 4: The operation of the budget transferring mechanism	By 2001, the mechanism worked as intended in all departments. Used as tin opener in the Work and employment and the Technical department, and as a dial in Culture and sports and Byskogen.			
Effector 5:Annual meetings between department manager and CEO to discuss departmental performance and revise the manager contract	Took place in all departments			
(2) Strategic Management Practice				
S.M. 1: The three municipal-wide PIs for work environment	All departments included these PIs in their department plans and reported on in them in the ordinary monthly performance reports to the CEO			
S.M. 2: The two "administrative focus areas"	All departments arranged internal processes to bring out suggestions for focus areas. All managers participated in the democratic manager meetings that decided. All departments plans contained customised PIs for the two focus areas, and "Efforts" linked to them. All reported on these PIs in the ordinary tertiary performance reports to the CEO.			

Continued on next page.

Continued from previous page: **Table 4: Summary of observations, 2001**

MANAGEMENT ACCOUNTING PRACTICE	TECHNICAL DEPARTMENT	WORK AND EMPLOYMENT DEPARTMENT	CULTURE AND SPORTS DEPARTMENT	BYSKOGEN SCHOOL
(3) Learning Behaviour				
Scanning 1: Regularity	The compulsory reporting routines meant that all departments were involved with regular scanning activities: Monthly and tertiary performance reports, annual surveys among users and staff.			
Scanning 2: PIs in department plans as data source:	Relatively few PIs in the department plan included both dials and tin-openers, instrumental as well as social tests, and outcome as well as structural measures.	The relatively few PIs were mostly dials and instrumental tests.	The few PIs were mostly dials and instrumental tests.	Although relatively few and mostly structural measures, the PIs in the department plan included both dials and tin-openers, and instrumental as well as social tests.
Scanning 2: Compulsory face-to-face interactions with stakeholders and others as data source	All department managers conducted individual employee conversations with most or all of their staff (cf. S.M. 1), they participated in the cross-departmental result support groups (cf. detector 2), and they had two annual one-to-one meetings with superiors (cf. effector 5 and interpretation 2)			
Scanning 3: Compulsory user - and staff surveys as data sources	Conducted. Even an additional, more specific user survey conducted.	Conducted	Conducted	Conducted. Even an additional, school-specific user (pupils) survey conducted.
Scanning 4: The "Public feedback reports" as data source	Emphasised as an important source of data. Half of all feedback received was related to this department.	Not emphasised	Not emphasised	Not emphasised
Scanning 5: Data sources summarised	An extremely wide selection of sources.	Quite a few sources, but nonetheless a narrow selection compared to Technical and Byskogen		A very wide selection of sources
Interpretation 1: Participation in result support groups	All departments participated in the cross-departmental result support groups. All used it to interpret the data obtained from the various scanning activities.			
Interpretation 2: Two annual one-to-one meetings with superiors. One between the department manager and the CEO to discuss overall departmental performance (see effector 5 above), and one between the manager and a CEO representative -. to discuss the results of the user and staff surveys	Took place in all departments.			

5 ANALYSIS

This chapter revisits the hypothesises put forward in chapter 2 in the light of chapter 4's narration of Larvik's BSC-reform experience. The hypothesises are "put to the test", if you will. Section 5.1 discusses hypothesises 1A-1C, concerning the extent to which the reform facilitated the first process of organisational intelligence, management control. Section 5.2 discusses strategic management; while section 5.3 discusses whether the second process of organisational intelligence was facilitated, organisational learning.

5.1 The BSC-reform and Management control

Recall that hypothesis 1 was that the BSC-reform in Larvik would facilitate management control in relation to all four departments studied. Hypothesises 1A-1C pertained to the more specific entailments of management control practices across the departments: Hypothesis 1A was that in the Technical department, an organisation characterised by production technology, we would observe a "close" management control practice developing over time (cf. p.28). Hypothesis 1B was that in Byskogen school, an organisation characterised by coping technology, we would observe a "prospects-oriented" management control practice developing over time (cf. p.29). Finally, hypothesis 1C was that in the Work and employment department and the Culture and sports department, organisations characterised by craft technology, we would observe a "results-oriented" management control practice developing over time (cf. p.30f). The nil-hypothesis was that management control was not facilitated in Larvik. What have we found?

Chapter 4 narrated how over the period 1996-2001, Larvik's CEO did indeed build up a management control system - brick by brick. The differences between the 1996-1999-period and the situation in 2001, illustrated in Table 4, are astonishing. In 1999, we could see the fundament for a director component of management control. The detector component was weak, however, and the effector component barely existed (cf. summary of the first period, p.63). By 2001 all three components had been

firmly institutionalised in relation to all four departments studied (cf. Table 4). This means that the nil-hypothesis can be firmly rejected, and that hypothesis 1 is strengthened. Management control was indeed facilitated by the BSC-reform.

Whether the more specific hypothesises 1A-1C were supported is however less clear. Recall that the question addressed by hypothesises 1A-1C was this: "What management control practices do we expect to observe developing over time - in the relation between upper management and departments characterised by different forms of organisational technologies?" (cf. p.27). Macintosh's thesis was that as organisations seek organisational structures that are congruent with their technologies, we should also expect them to seek a congruence between technologies and their management control systems (Macintosh 1985:246-255, 1994:112-113).

Have we observed a "close" management control practice developing in the relation between upper management and the Technical department? And likewise - a "prospects-oriented" practise in relation to Byskogen school, and a "results-oriented" practice in Work and employment and Culture and Sports?

A first glance at Table 4 (p.83f) probably catches more similarities than differences in management control practices across the departments. But a closer look reveals that important differences in fact remained, most notably on the director component of management control. Therefore, I will revisit hypothesises 1A-1C only after I have summarised my observations under the following two headings: "A Big Picture of Similarities", and "The Devil is in the Details: A Nuanced Picture of Differences".

A Big Picture of Similarities

We recall (from pp. 27-32 above) that *the frequency in performance reporting* and *the pattern of participation in setting the department's targets/PIs* were two central features in distinguishing the management control practices (Macintosh 1994:114f). In the case of Larvik, we have seen how these differences were eradicated by the CEO's requirements and interventions. From the very beginning, all departments were obliged to follow the same reporting routines, first tertiary, then both tertiary and monthly.

The same goes for the patterns of participation in target-setting. In the first period, none of the department managers were especially influential in the target-setting process. As Mr. Gulliksen, manager of the Technical department said,

> *In the beginning I guess most of the targets [i.e. the PIs] were decided by the CEO, and then tried out in the departments subsequently. But with time we [the department managers] have been included more and more. We have looked at the targets and compared them with what we can achieve. And then we have discussions. And the CEO is very good at that, I think. Sometimes I win, and sometimes he wins* (interview).

At the time of the third period of the change experience, the CEO largely stayed out of the target-setting process. The departments were left much to themselves. The author asked Mr. Auby, manager of the Work and Employment department about what sort of discussions he had with the CEO in the process of the setting PIs:

> *I set the targets myself,* Mr. Auby answered. *And I haven't heard any complaints yet. He* [the CEO] *tells us if he thinks we're not ambitious enough. 'Hot dog-targets'* ['pølsemål'] *he says, if he thinks we set targets that are too low. That means 'you're there already'.* (...) *But I haven't heard him complaining about my PIs, and as long as I don't hear anything, I assume everything's ok by him*. (interview)

A second aspect of the patterns of participation is the inclusion or exclusion of front-line staff in deciding the department's targets/PIs. In the first period, and to some extent in the second, the CEO allowed for substantial differences in departmental improvisations. But from 2000, all department managers were obliged to include all members of staff. As Mr. Gulliksen, manager of the Technical department said,

> *In planning 2001 we went further down in the organisation than ever before. All my 90 employees participated. I let them work in groups, and asked them to make suggestions for concrete objectives. (...) We did some work to include staff in 1999 as well, planning for 2000, but not like this* (interview).

In short, and as illustrated by Table 4, by the end of the 1996-2001 change experience, the management control system in many ways was practised virtually identically across the four departments studied. Chapter 4's division of the Larvik

change experience into three periods illustrated how large, seemingly overwhelming differences across the departments' improvisations of the BSC-reform over time were aligned by the CEO's steady stream of innovative interventions and communicative efforts.

In the detector and effector components of management control, the departments were literally aligned by 2001. An example was the aligned reporting routines mentioned above. Many of the differences in the director component had also disappeared over the five-year time period, like the patterns of participation in target-setting. To be specific, in the *director* component of management control, by the end of the change experience studied all departments not only developed department plans; all plans now had the same format (with PIs and "Efforts" linked to them); they all included a substantial number of PIs; and all plans were the results of broad and deep bottom-up processes. Secondly, the *detector* component worked identically across the department, in terms of reporting routines and all managers' participation in the result support groups. And finally, the *effector* component was also largely aligned, as the budget-transferring-mechanism worked as planned in all departments, and the differences in the use of manager contracts were decreased from the previous period.

Accounting for the similarities

What can account for these similarities? Inversely, the author asked the CEO, Mr. Gaustad, why there were some differences in the departments' practising of the management accounting system. "It's a matter of management", he answered. In other words, the CEO argued that the observed differences were due to the wills and skills of the department managers, nothing else. And to a certain extent the narration of the change experience proved him right. Over (in Mr. Gaustad's own words:) "five years of trial and error", the CEO's steady stream of innovative interventions, in concert with his extensive communicative efforts in fact aligned large, seemingly overwhelming differences across the departments' improvisations. *These* differences were obviously, as Mr. Gaustad put it, "matters of management".

How did Mr. Gaustad succeed in aligning these differences? Through managerial innovations, he built up robust carrot&stick-mechanisms. Examples are the use of manager contracts linked to the PIs in the department plans and the introduction

of the peer-group review of the cross-departmental "result support groups". The department managers had no choice but to follow these procedures. Hence, at least in relation to management control, the Larvik change experience was perhaps not as characterised by "interpretation" (cf. p.54) as the author first thought.

An illustrating quote was the CEO's answer to the author's question of why the departments make budgets with PIs and report faithfully on deviations:

> *You know, the managers sort of weigh the pain. What hurts more; doing it or not doing it?* (interview)

Probably just as important to understand the similarities is the "softer" explanation of acceptance and good-will. By including the department managers from day one, through institutionalised arrangements like the one-man-one-vote "manager meetings", and largely leave up to them and their employees the setting of the department's PIs, Mr. Gaustad gained the acceptance, good-will and "ownership" (Carter et.al. 1992:31-33) necessary to make the departments "embrace" the new management control practices. I will let two quotes from the department managers illustrate this point:

Mr. Gulliksen, manager of the technical department, said,

> *I guess in the beginning most of the PIs were decided centrally, and then subsequently tried out in the department. Then after a while we* [the department manager and the CEO] *started looking at the PIs together and discussing what we realistically could perform. So now we have discussions. And the CEO is very good at that, I think. Sometimes he wins, sometimes I win. I really appreciate that, that we can have a discussion* (interview)

A good illustration of the enthusiasm and ownership for the management system, an enthusiasm that seemed to be shared by all the managers interviewed in Larvik, is a quote from Mrs. Wold, the manager of the Culture and Sports department. Asked why she wants to identify e.g. customised PIs within the "municipality-wide focus areas" and perform well on them, Mrs. Wold said,

> *I guess it's a result of a communicative effort from Einar* [the CEO, Mr. Einar Gaustad]. *Because it's not that I have a personal interest in it. I think at some point my intellect absorbed that this is important. And that must be because of how the*

system has been communicated in the organisation. So I guess the answer is that I just believe in it (laughs). *I actually do.* (interview)

The Devil is in the Details: A Nuanced Picture of Differences

The similarities in management control practices are hence substantial. This does not mean that all hope is lost for hypothesises 1A-1C, though. According to Macintosh, important features the detail of Upon taking a closer look, we have however indeed observed how far from all differences could be aligned by the CEO's efforts. Substantial differences remained on the crucial *director* component of management control. Related to Macintosh's theory, differences remained on *the detail of the information provided by the PI-system* and *what the PI-system was used for* (Macintosh 1994:114-115).

As for detail, the number of PIs in the department plans still varied across the department in 2001. Though all four departments by now identified a substantial number of PIs, differences remained. As in the two previous periods, the Technical department used many more PIs than the other three. All the three periods taken together, the Technical department (68) stands out from the Work and Employment department (32) and Byskogen School (28), which again stand out from the Culture and Sports department (19).

When it comes to the second aspect, what use the CEO could make of the data from the PI-system, the following three features are relevant: How the PIs were *measured*, *what* the PIs measured, and whether they were *dials or tin-openers* (the latter is the "how used"-question from Figure 1, on p.15).

As for *how measured*, only two of the departments, the Technical department and Byskogen School made use of social tests as PIs in their 2001 department plans. Note that overall, there were still very few social tests being used. All departments taken together, only 10 out of 71 PIs were social tests in the third period, 61 were instrumental. Hence, the three periods taken together, only 17 out of 156 PIs were social tests.

Differences also remained on the questions *What do the PIs measure* and *How are the PIs used*. Related to the 3*2 PI-typology, the big picture was that only the

Technical department identified outcome dials in the third period, no one identified procedural PIs, while all four departments identified a vast number structural PIs. The Work and Employment basically used structural dials only, while the Culture and Sports department and Byskogen School used both structural dials and structural tin openers.

One final observation, taking all three PI-"questions" into account, is that only two departments, the Technical department and Byskogen School, used a wide range of all the possible PIs. Both departments used both instrumental and social tests and they both made use of both dials and tin openers through all three periods studied. (Remember however, that the Technical department made an even broader selection, in that they used outcome as well as structural PIs). The other two departments used only instrumental test, and basically exclusively dials.

Hypothesises 1A-1C Revisited

Where does this leave us in relation to hypothesis 1A-1C? Having summed up both similarities and differences in the departments' practices, have we observed a "close" management control practice developing in the relation between upper management and the Technical department? And likewise - a "prospects-oriented" practise in relation to Byskogen school, and a "results-oriented" practice in Work and employment and Culture and Sports?

I will firmly underline the importance of the different practises on the director component. The director component of management control provides the foundation for the detector and effector components. In other words, the fact that the PIs identified in the department plans in turn were the ones the departments reported on and hence were controlled on the basis of, underlines the importance of these differences.

Hypothesis 1A Revisited

On this basis, my understanding is that a "close" management control practice did indeed develop in the relation between upper management (the CEO) and the Technical department. Hypothesis 1A was hence firmly strengthened by the Larvik change experience. Contrary to the expectations (cf. p.28f. and Macintosh 1994:115),

we have seen how upper management left the target-setting much to the department itself, but most other expectations held water. The PIs were many and detailed, focusing on outcomes as well as structural output; and, as was the case of the other three departments, reports were frequent. Moreover, many PIs were dials. In effect, we conclude that a "close" management practice did emerge; a system for close measuring and monitoring of outputs as well as outcome.

Hypothesis 1B Revisited

Hypothesis 1B was also strengthened by the Larvik experience, only perhaps not as firmly as hypothesis 1A. Contrary to the expectations (cf. p.29 and Macintosh 1994:117), we have seen how Byskogen's performance reporting was frequent and systematic. But again, most expectations proved to be confirmed. The target-setting was left much to Byskogen's manager/head teacher and her employees. And targets were – again, quite right - not detailed, rather they were relatively few throughout the reform period. Moreover, virtually all PIs used by Byskogen were measures of structural effectiveness, and most were tin openers. Central among these structural tin-openers were social tests, like staff and both general and specific user surveys. What sort of control system is this?

We recall that Byskogen stood out from the rest by using a wide range of all the possible PIs. Both instrumental and social tests were made use of, as were both dials and tin openers[16]. Both the CEO, Mr. Gaustad and the Financial Officer, Mr. Hellnes emphasised the importance of this *breadth* in PIs. The author asked Mr. Gaustad what managerial use he could make of the information from e.g. a user survey from a school.

> *It's clearly a diffuse measure of the head and the school's performance*, Mr. Gaustad agreed. *Many things may influence on a user survey. But the thing is, if one school performs worse than the others on such a test year after year, we have reason to suspect that the head is not doing a good job. And remember that in addition to user satisfaction we have measures of staff satisfaction and resource*

[16] An example of a dial was "achieve 3,2 points on a national quality index for adaptation of school equipment for teaching of challenged pupils"; an example of a tin-opener was "90% of all pupils shall feel comfortable at school" (a social test from the user survey) (Both examples from Byskogen's 2001 department plan).

consumption. (...) *And hopefully we'll get indicators of pupil performances soon as well*. (...) *The thing is, when you put those four "diffuse" indicators together, you get a pretty good idea of what goes on in that school*. (...) *And then you can start figuring out how to make corrections*. (interview).

I interpret this account of Byskogen's experience conform Macintosh's expectation: The department's PI-system could be used by the CEO less as a tool for close measuring and monitoring than as a tool for evaluation, planning and estimation of future prospects.

Hypothesis 1C Revisited

Hypothesis 1C was however not strengthened by the Larvik experience. As expected (cf. p.32 and Macintosh 1994:116), in both the Work and employment department and the Culture and sports department, department managers and staff were influential in the target-setting process. But as was the case in the other two departments studied as well. Also conforming to the expectations is the fact that neither departments issued detailed performance reports. In fact, both departments had relatively few PIs, Culture and sports fewest of all four departments studied.

The reason why hypothesis 1C is still not supported, is the fact that neither of the two departments used "simple PIs, involving instrumental tests focusing on outcomes" (p.31 above). On the contrary, both Work and employment and Culture and sports used virtually structural PIs only. Work and employment basically used structural dials only, while the Culture and Sports used both structural dials and structural tin openers. The only department to use many outcome PIs was the Technical department.

This does however *not* mean that management control was not facilitated in the case of these two latter departments. Recall that hypothesis 1 has already been confirmed.

But to what extent this finding falsifies or qualifies Macintosh's theory would require a lengthy discussion of whether or not Work and employment and Culture and sports were examples of organisations with "craft" technologies. Such a discussion escapes the scope of this thesis. Suffice to note that Macintosh did help us to predict

and make sense of a substantial part of the management control practices developing in Larvik, in that hypothesises 1A and 1B were indeed strengthened.

5.2 The BSC-reform and Strategic management

Recall from page 32f that hypothesis 2 was that the BSC-reform had facilitated strategic management in Larvik. I.e., over the period studied, 1996-2001, we expected to find a hierarchy of objectives emerging in relation to all the four departments studied. The nil-hypothesis was that a hierarchy of objectives did not emerge.

What we have observed is that the management accounting system over time did indeed become a strong tool for strategic management in Larvik; a tool that worked practically identically across the four departments studied. The tool was institutionalised in two bulks, both in the last half of the change experience. In 1999 the CEO built three measures of work environment into the system; *the ratio of the department's employees who have a one-to-one employee-conversation with the manager*, *total sick leave*; and *the number of accepted suggestions from the employees for department improvement* (cf. p.65f). Since then, all four departments studied faithfully constructed PIs for these measures, included them in their department plans and reported on them in their monthly and tertiary performance reports to the CEO.

In 2000 the "administrative focus areas"-arrangement was introduced, in an effort made by the CEO to further advance strategic management (cf. p.73f). This intervention too was embraced by the department studied. All four departments' plans for 2001 included customised PIs with direct reference to the agreed "administrative focus areas". And moreover, all plans had several "Efforts" listed with reference to these PIs.

My conclusion is hence that hypothesis 2 is strengthened, and that the nil-hypothesis is rejected. A hierarchy of objectives did emerge, in that PIs for municipality-wide objectives were developed in all departments; incorporated into the

management accounting system; and practised alongside the department-specific PIs. The BSC-reform did indeed facilitate strategic management i Larvik.

Two "footnotes" must be mentioned, however, before we move on from hypothesis 2. The first concerns an implication of the way in which the focus areas were decided in Larvik. Recall that when asked to explain their willingness to dedicate efforts to these focus areas, several of the managers emphasised the inclusive and democratic process that preceded them (cf. p.78,79). Whether "focus areas" dictated from above, either from the CEO or the politicians- would have been embraced in the same way remains unanswered.

The second "footnote" is the fact that what unites all the objectives successfully "strategically managed" in Larvik is that they were all measures of what Scott (1992) calls "structural effectiveness" (cf. p.14). This can be interpreted to indicate that there is in fact a sharp limit to what objectives you can make a large, diversified organisation – like e.g. a municipality – unite behind. Structural measures like work environment, competence and co-operation are perhaps the smallest common denominators. A quote from Mrs. Wold, manager of the Culture and sports department illustrates this point:

> *Last year we* [her department] *fought for "Youth" as administrative focus area for 2001. That would have been great for us, but I'm not sure how the elderly homes would have dealt with that.* (interview)

Together these two "footnotes" indicate that the ability of the Balanced Scorecard to "translate strategy into action" in a decentralised organisation like a municipality is dependant upon at least two things; the design of the process and the strategies themselves.

5.3 The BSC-reform and Organisational learning

Recall hypothesis 3 from page 45: Over the period 1996-2000, the BSC reform would partly help, partly force all four departments studied into a more active intrusiveness mode. What this implied in terms of actual learning behaviour was contingent upon

their assumptions about their environments. Byskogen school and the Culture and Sports department, the departments assumed to perceive *un*analysable environments, were hypothesised to have moved from a starting-point in an "undirected viewing" learning to an "enacting" mode. The Technical department, assumed to perceive an analysable environment, was hypothesised to have moved from a "conditioned viewing" to a "discovering" learning mode. The nil-hypothesis was that the reform had not brought the departments into a more active intrusiveness mode. What have we found?

Chapter 4 narrated how all four departments studied were helped-slash-moved into a significantly more active intrusiveness mode by the BSC-reform. Arguably, the differences between the first and the third period are staggering. In 1996-1999, virtually no scanning activities took place, and no arenas or processes for interpretation had been institutionalised. Table 4 shows an entirely different picture. By 2001 a wide range of regular scanning activities took place. This implied that all department managers regularly obtained data/feedback from numerous sources: From monthly and tertiary assessments against PIs in department plans, bi-annual individual meetings with superiors, meetings with other department managers every other month, the public feedback reports and annual surveys among staff and users.

Two important arenas had been institutionalised by the CEO to assist the department managers in interpreting this vast amount of feedback. One was individual meetings between department managers and superiors. By 2001, all managers had two annual one-to-one meetings with superiors: one between the department manager and the CEO to discuss overall departmental performance and one between the manager and a CEO representative - to discuss the results of the user and staff surveys in particular. As described in section 4.2.4 above, Mrs. Olsen, manager/head teacher of Byskogen primary school, emphasised the importance of these meetings.

> *In the case of a poor result on any of the surveys, we discuss what efforts I should be thinking about making. (...) But in these discussions, it is me as a manager who's responsible for drawing the conclusions and implementing the necessary changes. The people from the CEO unit just assist; they never take over the responsibility* (interview).

The other arena for interpretation was the six annual meetings with other department managers in the cross-departmental result support groups. These groups consisted of one "process-guide" from the CEO unit and 6-8 department managers put together from different functional sectors (see section 4.2). All managers interviewed emphasised the interpretative aspects of these groups.

> *The first post* [in the meeting], Mrs. Olsen said, *is the forthcoming monthly performance reports. We go through those quickly, "are you on course* [on the PIs] *or not". And if you say "no", we ask, "do you need help? Is there anything we can do?". It can be high sick leave (...) or anything. So you see, we lift this manager's problem in and discuss it together. And if the help from the managers in the group is not enough, the department writes in its monthly report to the CEO that it needs support.*

Mrs. Wold, manager of the Culture and Sports department, said:

> *I've received helpful advice from both the Technical department and even schools* [laughs] (interview)

Hypothesis 3 Revisited

Where do these observations leave us in relation to hypothesis 3? First and foremost, the nil-hypothesis can be firmly rejected. The BSC-reform arguably brought all four departments studied into a significantly more active intrusiveness mode. The substantial differences in PIs aside, scanning activities were numerous and regular. Furthermore, all department managers engaged in extensive interpretation processes.

It is less clear, however, whether the more specific parts of hypothesis 3 were confirmed by the Larvik experience. Did Byskogen school and the Culture and Sports department end up in an "enacting" learning mode, and the Technical department in a "discovering" mode? According to Weick, one of the crucial differences between these two modes was their respective interpretation characteristics. Organisations in an enacting mode have unstandardised and inclusive interpretation processes; organisations in a discovering mode - standardised and exclusive. In Larvik, we have seen how these differences were eradicated by the CEO's managerial interventions. All departments were obliged to engage in systematic and inclusive interpretation activities.

What distinguishes these two learning modes in terms of scanning characteristics is the PIs used. Here Weick's theory was in fact confirmed. Byskogen used few dials, and to the extent they did, they were tin-openers. The Technical department used several outcome dials.

Nonetheless, the big picture is that Weick's theory was most accurate in predicting the "vertical" movement in Figure 6 (p.45): All departments were brought from a passive to an active intrusiveness mode, if only to a slightly difference extent. The question to address now is why this change came about.

Recall from section 2.4.1 (p.37ff) that Weick uses two explanatory components to explain why some organisations are in a passive and others in an active intrusiveness mode; one "static", the other "dynamic". The *static* component is variation in dependency upon the environment (Weick 2001:247). A heavily dependent organisation needs to intrude actively into its environment. The *dynamic* component is to what extent the managers are willing and able to keep the organisation in an active mode . Intrusiveness into the environment requires persistent interest and dedication to prioritise these activities, even in times of constrained resources.

I will argue that these lines of argument to a great extent can explain the changes in learning behaviour in the Larvik departments. As for the "static" component, the CEO's interventions clearly made the departments more dependant upon their environments by greatly increasing the *transparency* in the municipality. As we have seen, data about the departments activities was obtained from numerous sources: PIs in the department plans, public feedback reports and annual surveys among staff and users. By institutionalising routines for performance reporting, meetings with upper management and not least the cross-departmental result support groups, the CEO "revealed" these data to the departments' respective environments: political and administrative upper management, users, staff and peers (the other department managers).

This latter point, concerning making performance visible for peers, is what Hood (1998) calls institutionalising mechanisms for peer-group review. The CEO in Larvik especially made use of such mechanisms in relation to schools. Three additional transparency-enhancing efforts were done in relation to this sector. First, the

CEO introduced an additional user survey for schools. Second, the 25 schools in the municipality were asked to compare performance on selected indicators not only among themselves, but even with schools in the neighbouring municipalities (cf. p.81). Third, the results from user surveys were given to the local newspaper, which in turn printed a "best in test"-article about the 25 schools (interviews with Mr. Gaustad and Mrs. Olsen)

My understanding is that this increased dependency made the departments want to "influence" the way their environments perceived their work. Nobody wants to be perceived of as poor performers. This is evident in the managers' active involvement in all arenas for interpretation, as well as in ever more active scanning activities. An example of the former is the school managers' annual letters to parents where they explain how they intend to follow up on the results from user surveys (I.e. the head teachers give their interpretation of the revealed data) (p.80f). An example of the latter was the Technical department's specified survey, following up a user survey that revealed a poor result.

Part 3 CONCLUSIONS AND IMPLICATIONS

6 Conclusions

The overarching research question addressed in this thesis has been whether or not performance management can facilitate organisational intelligence in governmental organisations. The analysis was based on clinical research into a Norwegian local government experience in which the performance management-system "the Balanced Scorecard" (BSC) was implemented over a period of five years, 1996-2001. The thesis has narrated and compared the parallel change experiences of four functional units within the context of Larvik Municipality in Norway: the Technical department, the Culture and Sports department, the Work and Employment department and Byskogen primary school. Together, these departments cover a wide range of the public services provided by Norwegian municipalities.

Informed by March and Olsen's (1976) distinction between two fundamental processes of organisational intelligence, the analysis started from the following assumption: in order to fruitfully discuss the performance management doctrine, its ability to facilitate both fundamental processes of organisational intelligence had to be taken into account: management control is one, organisational learning the other.

The first question addressed was whether management control was facilitated by the BSC-reform. The narration of the departments' experiences showed that this was indeed the case. However, we also observed how management control can take many shapes. Macintosh's (1985, 1994) contingency-framework helped us identify and make sense of important aspects of these differences. In the relation between upper management and the Technical departments, a "close" management practice emerged. This was a system with many, detailed and unambiguous controls; a system for close measuring and monitoring of most aspects of performance: outputs as well as outcome.

In the case of Byskogen school, on the other hand, no such system emerged. Here, measures of performance were few and ambiguous. Central features of Byskogen's PI-system were measures of "structural effectiveness", like data from user

and staff surveys. The CEO explained how this did not imply that control was absent. When you put several "ambiguous" measures together, he argued, you "get a pretty good idea of what goes on in that school". I.e., Byskogen's PI-system facilitated "prospects-oriented" management control; a system that could be used by the CEO less as a tool for close measuring and monitoring than as a tool for evaluation, planning and estimation of future prospects.

As for the other process of organisational intelligence, learning from experience, the departments' experiences varied less. The narration showed how the BSC-reform over time brought all four departments studied into a substantially more active intrusiveness mode. This means that they actively and regularly scanned a range of sources in their respective environments for feedback about their performances, and subsequently made considerable efforts to make sense of it. Hence, the departments were given the opportunity to learn form their experiences.

In fact, innovative interpretation activities were spurred in all four departments, not least in Byskogen, by arguably "ambiguous" data from e.g. surveys of staff and user satisfaction. The term used in this thesis for such indicators of performance is "tin openers". By itself, a tin-opener provides only an incomplete and inaccurate picture. Such indicators do not give answers but prompt further interrogation and inquiry, or at least discussion. One example of a tin-opener PI could be a survey of client-satisfaction with the level of service they meet in a given public office. Another, taken form the experience of the Work and Employment department in Larvik, is the percentage of benefit claimants that are transferred to paid occupation.

We have seen how discussions about the significance and implications of such data took place on multiple levels in Larvik: Between department managers and department staff; Between department managers and upper management in the municipality and, last but not least, between managers of different departments.

One of the lessons that can be drawn from the Larvik experience is thus that in managing complex, decentralised governmental organisations, the BSC is a tool as much, if not more, attuned to facilitate the process of organisational learning as the process of management control. This strongly supports the conclusion drawn by Frieder Nachold (1996) in his treatment of OECD public sector reforms in the 1990s.

There, Naschold highlighted the importance of analytically focusing on the process of learning in evaluations of performance management. While we are all aware of the necessity of management control, Naschold argues,

> *Successful reform projects point to a function of the new steering model which normally remains in the background: the (...) importance of the interactive and decentralised negotiating process, [with] ... continuous and targeted discussion and negotiation on targets, results and their conditions (...). In such a case, the new steering system is to be considered less as a [management control system] than as a suitable basis for collective and binding learning, experience and conciliation processes* (Naschold 1996:9).

Implications for Performance Indicators

This conclusion has several implications for an important aspect of performance management; the question of what makes for good performance indicators. According to Neil Carter (1991), it is an established truth in the management accounting literature that the only good performance indicator (PI) is an unaboiguous PI. In this thesis I have denoted such PIs "dials". A dial an un-challengable measure of a department's performance; a PI that provides a means of "stopping up excuses" on the part of subordinates. Most examples of dials from the Larvik experience comes from the Technical department. One example is the amount of bacteria in the drinking water.

We have seen how in Larvik, tin opener PIs proved just as valuable as dials in facilitating organisational intelligence, in that they often provided the basis for the process of learning. The Larvik experience thus forcefully challenges the "established truth" that only dials are good PIs. My assumption is that the establishment of this "truth" in the field of management accounting mirrors this field's preoccupation with management control – corresponding with an underestimation of the other fundamental process of organisational intelligence, organisational learning

My "challenge" to that "truth" has a further implication. In the introduction to this thesis, Rombach (1991) was mentioned as one of the most proliferate Nordic critics of the performance management doctrine. His "death blow" is that performance management is not suited for the public sector, as it is built on a precondition that is

only valid in the private sector: the feasibility of identifying clear, quantified and unambiguous indicators of performance (Øgård 2000:35). This thesis has showed that this is in fact not a precondition for performance management. The experience of Byskogen school is perhaps illustration of the fact that performance management "runs" just fine on tin-openers PIs. Hence, Rombach's critique misses the target.

The Scope for Strategic Management in the Municipal Context

By it's "parents", Kaplan and Norton, the Balanced Scorecard is presented as a tool for enhancing strategic management above all. The BSC-slogan is in fact "Translating strategy into action". The Larvik experience illustrated that the BSC is in fact able to facilitate such "strategy-focusedness", as a hierarchy of objectives did emerge. PIs for municipality-wide objectives were developed in all departments; incorporated into the management accounting system; and practised alongside the department-specific PIs.

However, the experience also indicated that there are limits to the scope for strategic management in a decentralised, diversified organisation like a municipality. The thesis argues that the ability of the Balanced Scorecard to "translate strategy into action" in is dependant upon at least two things. The first is the strategies themselves. Structural measures like work environment, competence and co-operation are perhaps the smallest common denominators for agencies providing very different services. The second "qualification" is the design of the management process. When asked to explain their willingness to dedicate efforts to municipality-wide objectives, several of the managers emphasised the inclusive and democratic process that preceded them (cf. p.78,79). Whether "focus areas" dictated from above, either from the CEO or the politicians- would have been embraced in the same way remains unanswered.

Style Matters

This latter point leads us to the next and last lesson I draw from the Larvik experience: implementation and management style matters. Not forgetting the arguably multiple and substantial successes of the 1996-2001-reform in Larvik, make no mistake: the BSC is no magic formula. The management concept cannot be distinguished from its implementation. This is nowhere more visible than in the process of learning in

Larvik. We have seen how the CEO "tricked" the departments into a more active intrusiveness mode through a series of innovative interventions. E.g., by institutionalising routines for performance reporting, meetings with upper management and not least the cross-departmental result support groups, the CEO "revealed" important data about the departments the their respective environments: political and administrative upper management, users, staff and peers. This made the departments seek more feedback, and dedicate efforts to interpret it (cf. p.98 above).

The fact that both processes of organisational intelligence were facilitated in Larvik, as well as a notable degree of strategic management, is hence evidently due to a mixture of the BSC concept itself, a series of innovative managerial interventions and an inclusive management style.

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